



**Institute of Social Studies**

Graduate School of Development Studies

## **THE DECISION AND IMPLEMENTATION OF PRIVATIZATION IN TANZANIA**

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**ANICET MICHAEL**  
TANZANIA

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Members of the Examining Committee:

Dr. R.Tangri  
Dr. P.Mihyo

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**Enquires:**

*Postal Address:*

Institute of Social Studies  
P.O. Box 29776  
2502 LT, The Hague  
The Netherlands

Telephone : -31-70-4260460

Telefax: -31-70-4260799

e-mail: [postmaster@iss.nl](mailto:postmaster@iss.nl)

*Location:*

Kortenaerkade 12  
2518 AX, The Hague  
The Netherlands

## DEDICATION

**To my Daddy, Michael Sebastian who, though not rich, enabled me to acquire the formal education up to this level, and now is suffering from Cancer.**



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## **ACRONYMS.**

<b>1. ATD</b>	<b>African Trade Development.</b>
<b>2. BTNP</b>	<b>Business Times News Paper.</b>
<b>3. CCM</b>	<b>Chama Cha Mapinduzi.</b>
<b>4. DSE</b>	<b>Dar es Salaam Stock Exchange.</b>
<b>5. ERP I, 11</b>	<b>Economic Recovery 1 &amp; 11.</b>
<b>6. GoT</b>	<b>Government of Tanzania.</b>
<b>7. I.M.F</b>	<b>International Monetary Fund.</b>
<b>8. ILO</b>	<b>International Labor Organization</b>
<b>9. JUWATA</b>	<b>Jumuiya ya Wafanyakazi Tanzania.</b>
<b>10. MEBO</b>	<b>Management Employee Buyout.</b>
<b>11. MoU</b>	<b>Memorandum of Understanding.</b>
<b>12. NHC</b>	<b>National Housing Corporation.</b>
<b>13. PEs</b>	<b>Public Enterprises.</b>
<b>14. PSRC</b>	<b>Presidential Parastatal Sector Reform Commission.</b>
<b>15. SOEs</b>	<b>State owned Enterprises.</b>
<b>16. SSA</b>	<b>Sub-Saharan Africa.</b>
<b>17. TRA</b>	<b>Tanzania Revenue Authority.</b>
<b>18. U.K</b>	<b>United Kingdom.</b>
<b>19. URT</b>	<b>United Republic Of Tanzania.</b>



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## CHAPTER ONE: INTRODUCTION

### 1.1 A General Introduction

The growth of Tanzania's public enterprises<sup>1</sup> can be traced back as far as 1967 when Arusha Declaration sought to put the major means of production in the hands of the government. Various statutes that sought to nationalize companies that were privately owned effected this. The Public Corporations Act of 1969 was passed that gave the president powers to establish state owned enterprises by a simple order published in the government gazette.

From 1950s to early 1970s, state interventionism in the economy was the dominant paradigm, where government directed allocation of resources for production, took an active form in production and provision in the public sector. Various forms of price control were administered, where in Tanzania, The National Price Commission was setup in 1974 to regulate prices.

State owned enterprises were created for various reasons. The private sector was weakly developed, so it could not invest in risk areas, or where investment required heavy capital and long-term returns. Hence the state took an active role in investment, ranging from manufacturing to processing industries, transport companies, etc and the urge to cut down the power of small minority Asians who traded in wholesale and retail trade, as well as few multinational companies. If it was to be left to go alone, it could gain economic power and so become a threat to the ruling class. It was seen beneficial for the economy to be at the control of the indigenous to curb the threat of neo-colonialism (Mukandala, 1988, Nellis, 1994).

There were uneven regional development, so the need to create regional balances in investment projects. This was because of the fact that the private sector invested only where the rate of return for profit was high. State investment could also be the source of employment in those areas. Those who championed the struggle for independence were eager to see the fruits of it, so SOEs were a means of providing a reward.

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<sup>1</sup> A Public Enterprise is an organization that is set up as a corporate body and as part of the governmental apparatus for an entrepreneurial or entrepreneurial-like objective (Laleye, 1999:28). See also pages 28-29 for features of a public enterprise.

The last objective for the creation of PEs is seen after the promulgation of the Arusha Declaration<sup>2</sup> in 1967. According to Mukandala, the Minister who was in charge of parastatals stated that “the National Housing Corporation’s duties included promotion of unity and loyalty to the government even to the extent of lending people money and forgetting about interest...parastatals in this phase as exemplified by the National Development Corporation were to foster power and control by becoming bastions of capital accumulation, champions of socialist construction, and promoters of self reliance” (Mukandala, 1988:26). Parastatals were assigned multiple objectives, to cater for the social role as well as accumulating capital, which presented a difficult task for the parastatals to accomplish. This had an impact on the management of the parastatals later.

With those objectives, the number of state owned enterprises grew from 42 in 1967; by 1984 the number had risen to 425, an increase of 1011.95%. The proportion of the public enterprises sector capital formation in the year 1984-1995 ranged from 13.5% to 34.5% an average of about 22% (Moshi, 1998:3,8).

## **1.2 Background to the Research Problem**

The growth of PEs did not go hand in hand with improved productivity. Various factors explain why there was a poor performance in terms of financial profitability and the output of goods and services.

Management principles were flown, as there were multiple power structures as the ruling party assumed supremacy in decision and policymaking, “the party oversees all economic, social and political activities...” (Mihyo, 1996:41). Party penetration to the places of work accompanied by patronage politics made managers unable to manage. While managers were unable to hold accountable their subordinates, parastatal boards too failed, as most of the members were parliamentarians of the single ruling party who depended on sitting allowances and borrowing from the parastatals. The parliament as the representation of the electorates who are owners of PEs was weak to oversee the performance of PEs. It was excluded to posses enough information on performance so that the interests of the few could be protected. From the

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<sup>2</sup> This was the official party declaration in 1967, which aimed to put the major commanding heights of the economy to the public through nationalization by various acts of parliament,

Principal-Agency theory, “the principal (*the parliament*) wants to induce the agent (*managers*) to act on his (the principal’s) interests, but he does not have full information about the circumstance and the behavior of the agent, and so he has a monitoring problem” (Vickers and Yarrow, 1988: 9). The Parliamentary Organization Committee (POC) was established to make a detailed examination of the activities of parastatals. According to Mihyo (1994), most parastatals and their parent ministries failed to appear before POC to present their accounts (See page 87 for specific parastatals). This was for their own interests as there were huge corruptions by these managers by making PEs as their own investments. This view is clearly articulated by Tulock and Niskanen that ‘a great deal of the energy and resources absorbed in formal organizations are directed to the pursuit of the personal goals of the staff rather than to achieving the organizations’ professed objectives and purposes, and that, because of their privileged access to information about their own activities and their own capacity to deploy their own organization in self defense, bureaucracies<sup>3</sup> typically have considerable capacity to evade public and political scrutiny’ (Moore 1992:70-71). The effects of this failure to hold managers accountable was a deep accumulated debts and loss in parastatals. Parliament was weak as a control instrument in the uncompetitive politics. Lack of specific goals that they were to serve was one of the factors that led to poor performance. While they were to maintain efficiency, they were supposed to cater for the social objectives too. From the Public Interest theories, “...such bodies are themselves agents for, and therefore properly should act in the best interests of, the wider public” (Vickers and Yarrow, 1988:27).

Lastly, PEs were protected from the effects of market failures. Issues of product and production efficiency were neglected. To ensure available markets, a price commission was set to put limits to price. They borrowed from state banks and abroad under government guarantee and were unable to pay back.

These factors led to poor performance from the PEs (see section 3.3 for further discussion). Statist policies were to be replaced by individual ownership. The latter is said to be effective in managing business as it is profit oriented and has capital. From the property right perspectives,

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aiming to socialism and self-reliance and a classless society.

absence of clear ownership of PEs are the reason for their poor performance as “when a company has no clear residual claimant-no individual or group with a clearly specified right to claim any residual benefits or surplus left after other claims are met-it will be operated less efficiently” (Shirley, 1999:116). Vickers and Yarrow offer an alternative to this, that “...change in the allocation of property rights leads to a different structure of incentives for management and hence to changes in both management behavior and company performance” (1988: 7). The problem of absence of clear ownership could be solved by privatizing PEs, where share holders as principals has the capacity to monitor the behavior of agents to operate in profit, as fall in profit could lead to fall in the value of shares. While the threat of take-over is “never heard of it” in PEs (Tanyi, 1997:36), “the existence of this perceived threat of take over in turn acts as an incentive mechanism that deters managers from the pursuit of policies that are substantially at variance with the interests of its share holders” (Vickers and Yarrow, 1988:16).

Parastatals dominated the public sector at the expense of the private sector. Due to this reason, there was a direct link between parastatal’s economic viability and the growth of the country’s economy. According to Moshi (1996), parastatals were the main policy instruments in the post Arusha Declaration, and that the socio-economic crises facing Tanzania since the late 1970’s are directly related to the poor performance of these socio-economic and political instruments (Moshi, 1996:76).

The economic crisis that faced the country from the late 1970s, coupled with donor pressures and privatizations in other African countries led to the adoption of the policy of divestitures in February 1992. The objectives of the policy statement are:

- a) *To improve the operational efficiency of enterprises that are currently in the parastatal sector, and their contribution to the national economy.*
- b) *To reduce the burden of loss making parastatal enterprises on the government budget.*

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<sup>3</sup> PEs are not part of the bureaucratic arrangements, but the nature of the control institutions created its own type of bureaucracy.

- c) *To expand the role of the private sector in the economy, permitting the government to concentrate public resources on its role as provider of basic public services including health, education and social and economic infrastructure,*
- d) *To increase and encourage a wider participation of the people in the running and management of the economy* ([www.ipanet.com](http://www.ipanet.com)).

### **1.3 The Statement of the Research Problem.**

Tanzania was one of the countries that had the biggest number of SOEs in Africa. The majority of the Tanzanians viewed them as symbols of national unity and pride, as some were created from the taxes that they paid, or by foreign assistance in form of loans that had to be repaid. The need to create employment especially in rural areas so as to reduce urban migration, and the distribution of income led to employing graduates regardless of the manpower needs of each specific enterprise. There was an implicit policy to employment.

Therefore, given the nature of the policy reform (as stated above), it was expected that opposition to the policy would result to withdrawing its implementation, as it was implemented at the time when the economy was stagnant, characterized by low GDP, with growth rate of GDP of 2.9% from 1990 to 1998 with a population growth rate of 3.3% for the same period. There were no employment creations given the fact that the public sector that provided the biggest proportion of formal employment was declining. Most of the SOEs were closed, and the few that were operating were not able to pay salaries, hence leave without pay.

Given the above reasons, my first research problem is to explain why there was a decision to privatize in Tanzania in the early 1990s, despite the fact that the economy was ailing and SOEs were still seen as the source of economic power and influence by the state, and given the fact that between 1982 up to early 1990 there was a fierce struggle between the government and the World Bank concerning reforming the SOEs.

In the policy process, initiative and ownership of the policy are the main ingredients that determines positive implementation. This will make implementers to have the feelings that they are not excluded. Wasty (1993) as quoted by Tsikata suggested four contexts in which

reform ownership can be demonstrated, 'at the level of initiation, during the process of refinement when broad consensus among policy makers is required to move ahead, with respect to expressible political support for reform, and the extent of public support and participation...ownership is considered high when the government initiates and implements the program as opposed to when the program is prepared by the World Bank itself' (Tsikata, 2001:1-2). While there is great acknowledgement that the privatization initiative for most African countries and Tanzania in particular, is a result of the IMF/World Bank and donor pressures to privatize due to their "positions in economic policy, especially since 1986" (Lyimo, 1998:116), implementation of privatization in the second phase (1998/99 onwards) was wider and faster than initial phase (1993/4-1997/8). Hence, my second research problem is to examine why there had been a faster and smooth implementation of the policy, despite the fact that the government/implementing institution lacked capabilities as with regard to the technical and administrative capacity, the political responses were not very favorable, and notwithstanding the technical difficulties that were present.

#### **1.4 Research Questions**

- 1) Did economic crisis necessitate the decision to privatize?
- 2) Was the decision to privatize a home grown initiative?
- 3) Why implementation of privatization was slowest at the initial phase (1992/3-1997/8)?
- 4) Why implementation of privatization was speeded up in the second phase (1998/99-)?

#### **1.5 Empirical Justification for the Study**

Privatization being a global phenomena, it gives the impetus for studying the privatization process in Tanzania as far as implementation is concerned. Research by Due et al (1998&1999) focused on how the privatized enterprises have been performing, problems they faced together with ownership issues. PSRC commissioned a study in 1998 titled "Privatization Impact Study 2000" which focused on cash flows between the treasury and firms for the non-divested firms in pre and post privatization, and on how the divested firms are contributing to the treasury in pre and post divestitures. The research also focused on the impact of privatization on labor. Since little has been written on the decision to privatize and its relationship to the

implementation of the policy itself, this research will explore this new area and contribute to a new knowledge in that field.

### **1.6 The Hypotheses**

- I. Tanzania's economic crisis started in late 1970s and persisted up to the late 1980s. Concerns for reforming PEs started in early 1980s, but formally came to privatize in 1993. *"Hence economic crisis is a sufficient but not a necessary condition for inducing a country to decide to privatize"*
- II. Significant number of PEs had been privatized despite the fact that there was/is opposition to privatization. Hence, *"the ability to privatize is not only a result of government capabilities, political responses and technical capabilities, but is influenced by policy initiative and ownership"*.

### **1.7 SOURCES OF INFORMATION.**

The research is based on secondary and primary data, utilizing qualitative as well as quantitative data from previous researches, books and journals from the ISS library, PSRC publications and website, together with other internet sources.

### **1.8 SCOPE AND LIMITATION OF THE RESEARCH.**

The research will be exploratory, covering the decision and implementation of the policy of privatization in Tanzania. But the fact that secondary data is used widely, and the questionnaires that were sent to TUCTA and PSRC by email didn't provide enough information as intended, and reluctance of the latter to respond to various issues that i asked them by email, the research may be biased in one way or another. Since privatization is still unfolding, current media reports have been taken for the analysis.



## CHAPTER TWO: AN ANALYTICAL FRAMEWORK AND LITERATURE REVIEW.

### 2.1 Introduction

Privatization as a development strategy was enforced after the failure of the structural adjustment policies<sup>4</sup> that were internally initiated, hence privatization was a component of the Economic Recovery Program 1 (ERP 1, 1986-9) and ERP 11, or Economic and Social Actions Program (ESAP 1989-1992) to revamp the economy, and in this particular case, the parastatals. In order to understand why Tanzania decided to privatize, one need to look at two dependent variables, willingness and opportunity. Manzetti (19993, 1999) outlined a useful analytical model in understanding the two concepts.

### 2.2 The Analytical Framework

#### 2.2.1 The Willingness to Privatize

The leader's willingness to privatize comes from two mixed bags of motives, which are *ideological* and *pragmatic* in nature. An example of the *role of ideology* was seen in Chile in the mid 1970s when Pinochet embraced the teachings of neo-conservative economists (who believe in the power of markets over state) in order to implement the reforms. *To accomplish his goals and ideological standings*, he saw privatization as a weapon to weaken the power of trade unions and to undo many of the Christian Democratic and Socialist Welfare reforms enacted between 1964 and 1973.

*Free market economics* is regarded by many neo-liberals as more superior than the state in the allocation and distribution of resources. The two decades of developmental states in Africa and elsewhere saw state intervention in the economy as distorting the free play of markets, hence the need to free the markets by reducing the role of the state.

Ideology may play a great role in *promoting popular* capitalism, by encouraging the working and middle class to purchase shares in the privatized companies. In Britain Thatcher saw the linkage between capitalism and democracy, the right to property, and for the case of Africa “

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<sup>4</sup> It was a home grown initiative with foreign advise after the failure of the National Economic Survival Program of 1981 (Kiondo, 1992).

this process of democratization has heightened the need for openness, accountability, and private sector development led by a reduction in state intervention in commercial activities, and, in so doing, has probably been the single most important stimulus for privatization" (White and Bhatia, 1998:29).

**Pragmatic factors** play a greater role in privatization; the ideology plays a secondary role to give more credibility to the entire program. Selling shares to the public to promote popular capitalism will serve to soften the opposition that SOEs are being sold to foreigners.

Thus, *improvement of economic efficiency* is believed by many economists and politicians to result from privatization. When they were publicly owned, SOEs were protected from competition; production efficiency and operational efficiency were overlooked. The assumption is that privatization will lead to competition so creating both the product and operational efficiency.

Privatization is expected to *modernize the domestic economy/industry*. The growth of the public sector leads to the inability of the state to inject more capital and modern technology. Due to budgetary constraints to finance them, the private sector is seen capable and have the incentive to provide both capital and modern technology.

Privatizing the loss making SOEs to *reduce the fiscal deficits* is the prime concern for many policy makers. In Latin America, many SOEs operated under loss, thus forcing governments to subsidize them. More than that, "privatization via debt-equity swap arrangements and purchases in hard currencies can also make an important contribution to a country's foreign debt...privatization may have long term effects on the *balance of payments*. This becomes true when new owners reorient production from domestic to export markets" (ibid. 1999:17).

The growing role of government as a producer and provider of public goods rendered many governments unable to undertake the two roles simultaneously. There seemed the need for *governments to rationalize its roles* by redefining the core roles, the enforcement of law and order, infrastructure and economic development, and human capital, which is concerned with

the provision of social services. So government has to relinquish production and provision to private production and market provision.

Last in the leaders willingness to privatize, pragmatically they may view privatization as a way of '*rewarding supporters or finding new ones*' and that administration can sell PEs to sympathetic private business, under very profitable conditions. Thus, privatization may turn into a form of patronage, a reward for campaigning contributions or a means to lure future support (Manzetti, 1999:17).

### **2.2.2 The Opportunity to Privatize**

Willingness alone cannot provide room for leaders to undertake privatization. There must be opportunities that give the way for privatization. Opportunity "delimits the range of possible options open to decision makers" (ibid: 18). *Availability of tenders*, which means the buyers may constrain the decision to privatize. "Often governments want to get rid of deficit-ridden enterprises but may encounter strong public opposition or are unable to find buyers due to market availability, markets' willingness to assume risk, and the supply of available investment opportunity" (ibid: 18).

*Favorable public mood* is also a precondition for deciding to privatize. This can be secured in a crisis situation, where everybody feels the need to have the solution to the prevailing crisis. Many authors share this view. "The greater the economic crisis, the greater the likelihood that a decision maker will adopt a policy of state divestitures" (ibid: 18, Ramamutri, 1999.). *Foreign pressure and financial support* may provide opportunities for privatization. Most of the developing countries turned to the World Bank, the I.M.F and other foreign donors after the deepening of the economic crisis for financial assistance. Donors were convinced that many of the problems that faced these countries were due to structural weakness in their economies. Hence, to qualify for aid, they were forced to make structural adjustments, privatization being one of the packages. Opportunity and willingness are not independent concepts. They interact with one another, that "leaders decide to embark on privatization scheme if their willingness coincides with an opportunity to do so.

### **2.3 Implementation of Privatization.**

Willingness and opportunity alone are not sufficient to get the privatization through. Theoretically, the linear model of implementation assumes that once a decision is taken or a policy is adopted, implementation follows automatically by those expected to take action. “Successful implementation is viewed as a question of whether or not the implementing institution is strong enough for the task. If implementation is unsuccessful, the usual remedy is to call for greater efforts to strengthen institutional capacity or to blame failure or lack of political will...” (Grindle and Thomas, 1991:122). But the actual practice in implementation reveals that to get the things done involves a multitude of actors with various motives and capabilities, who also interact with each other. The nature of the policy reform will determine the type of response from the actors. According to the interactive model of policy implementation, “a policy reform initiative may be altered or reversed at any stage in its life cycle by the pressures and reactions of those who oppose it” (ibid: 126). Hence to get the reform be implemented, *the role of leadership* is central in ensuring that once the decision has been taken to privatize, the process does not get stalled by the opposing groups, and must have the skills to overcome political and technical difficulties. In analyzing the factors for effective implementation, Bjorkman ranked leadership 9/10 among his factors and referred them, as “fixers; double agents...” (Bjorkman, 14th January 2002: 4).

Apart from the role of leadership, Manzetti identified three factors that affect successful implementation of privatization policy. They are *government capabilities, political responses and economic difficulties*.

**Government capabilities** involve cohesive economic team, technical and administrative capacity, bureaucratic cooperation, concentrated executive authority (techno pool) and speed.

*Cohesive economic team* involves policy advisers such as economists who play a major role in advising the government on economic issues having the same views or agreement on the benefits of privatization. This will play a role in getting the other implementers (*the bureaucratic cooperation*) pushing the agenda forward, as they will not see themselves as potential losers. The two groups depends much on the *concentrated executive authority* to push the implementation forward. Strong executives with political leverages are crucial. Thus,

“the greater the executive powers, the easier it is for the government to implement its original privatization scheme” (Manzetti, 1999:24).

The concentrated economic team must have *technical and administrative capacity* that will aid design proper policies that are implementable. It must have the capacity to administer and monitor the whole process, as well as the legal capacity to deal with legal matters that may be presented to the court.

As explained above, *speed* is also an attribute of government capacity in implementing privatization or any type of policy reform so that the process may not be stalled on the way.

**Political responses** from either the bureaucracy or the public may constrain the available opportunities for privatization. Generally, in implementation theory, “the characteristics of a reformist initiative have a powerful influence on whether it will be implemented as intended or whether the outcome will be significantly different. Moreover, the distribution of costs and benefits of a policy or institutional change, its technical complexity, its administrative intensity, its short or long term impact, and the degree to which it encourages participation determine whether the reaction or response to the initiative will occur primarily in the public or bureaucratic arena” (Grindle and Thomas, 1999:126). Private interests are a motivating factor. *Civil servants* had secured power and influence by overseeing the PEs that belonged to their respective ministries. *Employees of PEs* fear loss of jobs after privatization. So both groups are likely to oppose privatization measures.

*Labour unions* depend on the size of the employed labourforce as a source for their power and existence. Privatization will lead to lay offs, hence are likely to mobilize employees against privatization. Also the *pro privatization political base* (popular support) may thwart or push the privatization process especially where there were massive investments in the SOEs. Opposition may occur if the public is not well informed of the benefits of privatization. Bennell’s study of privatization in Africa revealed that there have been long-standing and usually quite intense nationalist/populist concerns about the possible adverse political and economic consequences of increased foreign investment that are likely to arise as a result of privatization (Bennell, 1997:1775).

*Technical difficulties* do constrain privatization. For privatization to be successful, it must be preceded by liberalization of the economy with proper regulation to specific sectors. This will prevent *market failures* that may arise due to lack of competition or from illegal imports, or closure down of privatized firms due to high operational costs and then be substituted by the same imports. *Lack of financial markets* particularly the stock markets where public shares could be floated, or in determining the value of shares had been a serious problem in developing countries. There has been the problem with the *valuation of assets*. Most SOEs were in devastated situation and operated under capacity. Lack of records about the profitability of the firms or other assets lead to undervalued or inflated values, and the approach that is used by the government to value SOEs (asset based valuation) is opposed to business based valuation employed by buyers that calculate the net worth of an enterprise by estimating the likely net profit streams and offsetting these against current liabilities. Since the net worth of most SOEs is negative, SOE sales have frequently become bogged down by arguments about how assets should be valued (Bennell, 1997).

#### **2.4 Literature Review on Privatization in Tanzania**

There is a very limited literature for the willingness and opportunity to privatize in Tanzania. Literatures on privatization will be reviewed to give the insight of how they are related to the subject

Analyzing the willingness to privatize in Tanzania presents a difficult task since 1986 when the country's memorandum of understanding was signed with the I.M.F in which case the former was to implement the latter's SAPs. It should be known that since 1982 there were home grown SAPs that did nothing to address the problems of the SOEs. Then ERP1 (1986-1989) was designed, "the ERP was a shock treatment aiming at a complete restructuring of the economic system. It is second only to the 1967 Arusha declaration in its effects on the economic environment, moving the economy from a regime of administrative controls towards market orientation"(Valk, 1996:181).

The present literature talks about the presence or absence of commitment to privatization by looking at the number of divestitures made. So commitment here is equated with willingness, because where the country leaders are willing to privatize, the program is speeded up.

Bennell (1997) categorized three groups of countries according to the time they started privatizing, and the amount of sales transactions over time. Hence Tanzania, Burkina Faso and Zambia have been categorized as late starters since they started formal privatizations in early 1990s and they “have shown fairly strong political commitment to privatization” (Bennell, 1997:1787). The author reached this conclusion after making comparisons with those countries that started privatizations since late 1970s and late 1980s with only minimal privatizations that were done, until early 1990s when most program were implemented. However, the author acknowledged, “most of these programs were largely the outcome of pressure from the World Bank and the IMF” (ibid. page 1787).

Contrary to the work by Bennell, Due (1998) concluded that “there is lack of evidence of sincere commitment to see that privatization is achieved” (Due, 1998:333). This was after four year of privatization, as out of 382 parastatals by mid-June 1996, 158 (or 41%) had been divested. On their later studies (Due et al) the authors concluded, “in most countries there has been lack of consensus in favor of privatization (in this case was certainly true of Tanzania)” (Due et al, 2000:39). This was after 299 out of 395 parastatals had been divested by mid 1999<sup>5</sup> (ibid. page 4).

## 2.5 Conclusion

The two main sources of literature differ on the subject of willingness to privatize. Since Bennells’ work is based on comparative study on different countries by time, the work by Due which involved preliminary and final study in the country gives a much insight on the absence of willingness to privatize in Tanzania, though the opportunity to privatize came from foreign pressures and the economic crisis. Nevertheless, Manzetti’s framework on implementation does not address other issues that hinder the implementation of the privatization policy, like the

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<sup>5</sup> The authors’ total number of parastatals set for privatization seem to vary with that of 1996, but actual number according to PSRC coordinator is 369 (Kavishe, 2000:2).

state of the country's economic growth and infrastructures that are considered potential to attract foreign investors. Chapter four will address these issues so adding more knowledge on the framework.

## **CHAPTER THREE: THE DECISION TO PRIVATIZE IN TANZANIA.**

### **3.1 Introduction.**

This chapter provides an insight on the situation of the economy in Tanzania from the 1960s to the mid 1970s by showing the attempts to get the economy grow to meet the needs of post-independence state. An account of the economic crisis from the mid 1970s onwards, and the debate between the GoT and the World Bank will be provided as they will bear on the decision to privatize in the early 1990s which is the main subject in this chapter. Where as the general economic crisis had impact on the PEs, politics had impact on management that led to poor performance, under-capacity utilization and mass debts.

Willingness to privatize has been influenced by the ideologies of the IFIs' preaching's, and not merely leaders' goals to curb labor unions. While the aim was to achieve popular capitalism, statistics showed that this objective has not being achieved. The desire to improve efficiency in the economy will reduce fiscal and BoP deficits, so reducing states' role in the economy. While privatization in other countries aimed to reward supporters, little empirical evidence cannot justify this for Tanzania.

While the economic crisis provided willingness to privatize, donor pressures and financial support, availability of buyers and favorable public mood due to economic crisis provided an opportunity to privatize.

### **3.2 The Economy and the PEs to Early 1990s**

#### **3.2.1 The Economy from 1961 to Mid 1970s**

After getting the political independency in 1961, Tanzania was eager to have accelerated development so that the general public could realize the fruits of independence. Private capital was very meager, and the prospects for attracting more capital diminished. As stated by Costello, "foreign investors...were not anxious to risk capital in Tanganyika because of the small market, possible instability and uncertain returns"(Costello, 1994:1513). With this pessimism, the state decides to take an active role in investments and as a partner to foreign investors. The National development Corporation was set in 1965 to seek out the foreign investors as well as to guide development.

This new initiative was successful in getting the economy growing. “GDP growth during 1965-1972 was 5% per annum. Manufacturing value added grew at about 105% per annum during the same period, while capital formation grew from 15.8% of GDP in 1965 to 25.2% in 1970” (ibid.). The Arusha Declaration of 1967 with its socialist ideals nationalized the major means of production to put the commanding heights of the economy in the public. The Public Corporations Act of 1969 gave the President the powers to establish PEs by a simple order published in the government gazette. Other writings state that the implementation of extensive villagization (1973), nationalization and price controls led to the considerable improvements in the social sector and economic growth was approximately 5 per cent per year between 1965 and 1976 (Swedish Development Consulting, 1998). The above factors led to the expanded role of the public sector in the economy.

### **3.2.2 The General Economic Crisis**

From the mid 1970s, Tanzania’s economy began to shake. The over extended state in the social sector means that expenditure was greater than revenues it was able to mobilize. Villagization schemes that aimed to boost production failed due to lack of inputs, and apathy from the displaced citizens towards the new schemes. This led to food shortage as well as drop in the traditional export crops. Low exports led to low imports as well due to lack of foreign reserves. Table one provides economic indicators that show the extent of the crisis. While inflation was low (8.5%) between 1967-73, other indicators were positive for the same period. Exports deteriorated, but in 1975 and 1976 there was an upsurge due to coffee price boom in the World Market, and “terms of trade improved by about one third during 1975-77” (Hyden, 1993:1397) hence 7.1% exports in 1979-81 might have been due to that improvements. There was a mini balance of payment crisis in 1971-72 that was caused by over investment and capital flight. The Tanzanian government responded with a policy of import licensing and foreign exchange control and by the end of 1972 the crisis was under control. The second crisis came in 1974 with the fourfold increase in oil (adding US\$ 54 million to the import bill) and grain prices, aggravated by a period of drought (Valk, 1996:174)

The balance of payment problem re-emerged in 1978 when resuming medium and long-term development efforts and with renewed increased investment to make up for the damage caused by the loss of strategic imports for spares and the maintenance of infrastructure and production.

The personal and ideological factors led to the collapse of the East Africa Community in 1977. Since many infrastructures were located in Kenya, Tanzania had to invest in new infrastructures (rail, air transport and communication systems). In 1978, the second oil crisis emerged that doubled the oil price, adding US\$ 150 million to the import bill. This was followed by the war with Uganda (Kagera War) that costed about US\$500 million. From 1974 to 1980, the government borrowed from external donors to cover the balance of payment deficit. "...the nominal value of such assistance, counted per capita, increased nearly fourfold. In real terms, per capita aid more than doubled and during a few years around 1980, net official development assistance exceeded Tanzania's own export receipts" (Hyden, 1993:1397). But aid flows reached a peak around 1980 and fell sharply in real per capita terms from 1981. There was an upsurge in international interest rates and thus in Tanzania's external debt burden. (ibid page 1398).

### **3.2.3 The Crisis in the Parastatal Enterprises.**

The general economic crisis had impacts on the performance of parastatals (infact it was argued in chapter one that there is relationship between poor performance in the PEs and the economic crisis). Though the Arusha declaration aimed to boost agricultural production, in practice it was neglected. Hence there was little linkage between industrial sector and the agricultural sector. "Furthermore, industry began facing problems of production and inputs because agriculture which was declining could not support the necessary import of inputs such as fuel, foreign skills, spare parts and new technology or even repayment of loans..." (Mihyo, 1994:109). Various authors have written about the reasons for poor performance of PEs in Tanzania (i.e. Mihyo 1994, Mukandala, 1988) and other African countries as pricing policies, poor management and control mechanisms, inappropriate investment decisions, failure to generate internally a sufficient amount of working capital, and a limited ability to finance new or replacement of investments (Nellis, 1986, Tangri, 1989). This led to the capacity underutilization in most of the PEs throughout the 1980s as the crisis also persisted throughout the period, as shown in table 2 for selected enterprises. Only few PEs managed to operate over 50% of their capacity utilization (i.e. cigarettes), and some like beers started to fall in 1989 and safety matches in 1994.

Parastatals failed to generate the expected dividends and tax revenues and instead deepened their dependence on bank credits and government grants and loans for survival and expansion. The fiscal burden of PEs as far as grants and subventions is concerned, transfers to PEs rose from 6% in 1980/81 to 8.8% in 1989/90 of the gross total government expenditure (Moshi, 1998:10). The net transfers rose from Tshs 6.3 billion in 1984/5 to over 50.3 billion in 1993/4 when reform programs started, lowering to Tshs 21.8 billion in 1994/5 (Due, 2000:2). With regard to government budget deficit, net domestic borrowing was reduced to 3.8% of total expenditure consistent with the objectives of ERP and agreements with IMF. However, external borrowing under government guarantee, Tanzania's external debt rose from US\$ 2.5 billion in 1984 to US\$ 4.6 billion by the end of 1991, and that 88% of the external indebtedness was attributed to only ten industrial PEs out of the 70 (Moshi, 1998:14). Increased external debt and devaluation means that government budget deficit was widened, as more revenues were needed to repay the loans. The overall internal banking and external loans to PEs was estimated to be Tshs 1000 billion as 1992 (*ibid*, pp 17).

Direct and indirect subsidies concealed the real costs of the goods and services produced, and created a false impression of the cost of living on a broad section of the population (Ipanet.net).

### **3.3 Government, IMF and the World Bank from 1982 to 1991**

As explained above, the economic crisis continued up to the mid 1980s. In late 1970s, the IMF and the World Bank began detailed discussions with the Tanzanian government about the need to modify the rigid domestic price system and exchange rate policy, the marketing policy in the agricultural sector and related issues. The government refused these recommendations. The government from early 1980s initiated its own economic recovery programs (as stated in chapter 2).

This section looks the debate on parastatals in those larger economic recovery initiatives, as discussed by Peter de Valk (1996:203-209) especially in the manufacturing sector. The first country policy document dealing with the crisis in 1982 made a little mention for the crisis in the parastatal sector (URT 1982a). Then another document outlining the structural adjustment policies (URT, 1982b) was drafted as an economic document intended to attract IMF support

written in collaboration with the IMF advisors, proposed restoring the profitability of the parastatals through a material incentive system, a general rationalization of decision taking and more effective control and accountability systems. The IMF at this stage was in favor for restructuring the parastatals. There was no mention of privatization.

The country economic memorandum on Tanzania (World Bank, 1984) for the first time clearly introduced the idea of rationalizing the parastatal sector with more than institutional reforms<sup>6</sup>. Also the importance of the private sector was mentioned. In 1986, this view was phrased more strongly in the report to the Consultative Group for Tanzania on the government's ERP (W.B 1986). According to the W.B, the work carried out by the Bank and the GoT on the domestic costs of the different parts of the industrial sector suggests that the sector must be extensively restructured as recovery proceeds (W.B 1986). Reference here is made to industrial sector survey presented in the W.B (1987c). The report continues to say that it also means accepting the scaling down and closure of wasteful plants (including those that are state owned) and of borderline ones that are unable to improve their productivity. The government response to that report was the ERP (URT, 1986), the government didn't respond to World Bank's view on privatization and disinvestments. By 1988 the Bank gained eminence on privatization and encouraging the private sector, when the country's economic recovery programmes resulted in more indirect subsidies to PEs than before. Also previous emphasis on control didn't create efficiency. In response, the Tanzania Association of Parastatal Organizations (TAPO 1988) came with its report. It called for a redefinition of the commanding heights of the economy to include only those parastatals that are strategic, or natural state monopolies. These were to continue receiving government support.

In the document produced by the World Bank and the government of Tanzania on the country's second economic adjustment program (URT 1990C) privatization was hinted at by the statement that joint ventures and the role of the private sector will also be encouraged. But in 1991 the World Bank observed that the Treasury supported inefficient enterprises that managed to survive the competitive environment created by the ERP. In that context, the

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<sup>6</sup> The previous SAP (URT 1982b) put more emphasis on control, which resulted to the creation of more institutions.

World Bank recommended that to reduce budgetary costs and improve efficiency in the industrial sector and throughout the economy the government needs to adopt a comprehensive program of parastatal reform and actively pursue private participation and outright sale of government owned enterprises.

### **3.4 The Willingness and the Opportunity to Privatize**

Privatization was a component of the wider economic recovery programs accepted from 1986. As it is shown above, the continued support by government to outperforming PEs made the World Bank to take a had stance for outright divestitures in 1991. According to Manzetti, willingness is influenced by the perceived margin of advantage, that is, the degree to which the expected results of privatization are preferred to available alternatives (Manzetti, 1999:12). The focus is on the top policy makers; the president and his staff. It can be ideological or pragmatic. According to Longman Dictionary, opportunity is “a chance to do something or an occasion which is easy for you to do something” (Longman, 1995:995).

Privatization was preceded by the liberalization of the economy in 1986 when the government signed the memorandum of understanding with the IMF, where stabilization policies<sup>7</sup> of the Fund were accepted. The governments’ commitment reads; ‘accordingly, with the present social-political framework chosen by the people of Tanzania, greater attention will be paid to establishing correct price signals in the economy...Further such price signals would be accompanied by appropriate fiscal and monetary policies’ (Stein, 1992:74). The IMF agreements that Tanzania rejected in 1981 were accepted. It also included ‘reducing parastatal budget support’ (ibid. page 73) as part of the structural adjustment policies<sup>8</sup> that among other things, emphasized “privatization of government owned assets and concentrated efforts to raise efficiency in remaining governmental institutions” (Helleiner, 1992: 54). The president was therefore willing to privatize as an alternative to the previous policies that failed to get the economy to growth depending on the available chances. This answers the question as to why there was a decision to privatize. Despite the fact that there were external pressures, the economic crisis that affected even the parastatals as well influenced the leaders to see the

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<sup>7</sup> Aims to reduce short-term disequilibria, especially budget deficits, balance of payment deficits and inflation. (Stewart et al, 1992:5). These policies were uniformly applied in developing countries.

necessity of policy substitution. Availability of basic commodities<sup>9</sup> that were lacking before liberalization of the economy played a great part in convincing the leaders about the better outcomes in privatization.

### **3.4.1 The Willingness to Privatize**

#### **3.4.1.1 The Goal of leaders and Ideological Standing, Market Economics and Emasculations of Labor**

As far as affinity with leader's goals and ideological standing is concerned, President Ali H. Mwinyi who was in power at that time was influenced by ideological teachings of the I.M F, the World Bank and the Western donors who were teaching the benefits that could be achieved from the free market economy and privatization. Since the economy was in decline and so the economic well-being, private ownership and allocation by market as opposed to the failure of the centrally planned economy could lead to economic growth and development. Policy substitution in favor of markets was the alternative left to the policy makers when the home grown initiatives failed to revive the economy in the first half of the 1980s which was also characterized by intense struggles with the IMF/World Bank on reforming the economy and PEs in particular.

At the dawn of privatization, the country was transformed to a multiparty democracy. Under the single party system, the ruling Chama Cha Mapinduzi banned popular movements and made it illegal for labor unions to organize strikes. By the way, JUWATA, which was the central trade union, was an arm of the party so it could not revolt against it. Whereas in Chile Pinochet aimed to reduce the power of trade unions enacted by the Christian Democratic and Socialist welfare reforms so as to weaken his political rivals (Manzetti, 1993, 1999), in Argentina Menem in 1991 accepted privatization so as to weaken the Peronist unionism, as unions were the backbone for Perons (ibid, 1993). In Tanzania there was a long time relationship between the government and the Trade Unions, hence there is no evidence to support that leadership was inclined to privatize so as to weaken the labor unions, as the latter was not inclined to any political party yet, and it was not well organized and strong as in Chile or Argentina and so a threat to the regime.

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<sup>8</sup> Concern to reorient the structure of the economy towards greater efficiency in the medium term (ibid).

### 3.4.1.2 Popular Capitalism.

The desire to privatize so as to promote popular capitalism is seen in the government policy statement issued in February 1992, “to increase and encourage a wider participation of the people in the running and management of the economy” (ipanet.com, PSRCTZ.COM, Kavishe: 2002:3). This was an implicit objective because under socialism private ownership of property and management of business was discouraged, and state ownership was seen as the custodian of the public. Under the new liberal and market economy, there was a desire to let the economy under the hands of individual ownership. To achieve this objective, the government maintained equity stakes by remaining with less than 50% of shares by joint ventures for later floatation in the stock exchange. Commercial Banks were used to sale shares for the Tanzania Breweries (in 1995 the Indol shares were raised to 50.5%, and 10% of shares were disposed to the public), the Tanzania Cigarettes Company (where 50% of shares were sold to R.J Reinolds by 1995). The government planned to sell 10-15 of its share to the public in the year 2000 and the Tanzania Oxygen Ltd where 25% of shares were offered for sale by floatation (as the Dar es Salaam Stock Exchange was not in place until 1998). (Gibbon: 1999). Gibbon (1999) and PSRC Annual Review 2000/2001 showed companies where the government retained shares for later disposal to the public.

To further this goal, the government encouraged community based organizations, cooperatives, non-governmental organizations, district councils etc to purchase parastatals/non-core assets. Example are Mponde and Rungwe Tea Factories, Mbozi, Mbanga and Moshi Coffee Curing, some coffee farms in Mbozi District, Utegi Diary farm and a plant in Mara. Workers also had been encouraged to purchase shares in divested companies like TBL, TTCL, TTC. In general, over 57,000 Tanzanians have bought shares in privatized companies, especially TBL, TTC, TOL and currently the Tanga Cement (Guardian, Oct 2002). The first three were the first to be listed on the Dar es Salaam Stock Exchange and they sold shares through banks.

Given the amount of shares that the government had retained in all joint ventures the above statistics is too little to claim a great success in popular capitalism. Even the Privatization Trust

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<sup>9</sup> The crisis in the early 1980s led to “acute shortage of consumer goods, industrial material and spare parts...” (Shao et al, 1992:4).

Fund that was established by law to enable people buy shares is not operating. Hence Due argues, “broadening ownership is stated as an objective but only minor efforts have been made in this direction” (Due, 2000:39).

### **3.4.1.3 Improvement of Economic Efficiency**

Pragmatic factors played a great role to drive the leaders towards privatization. As it has been discussed, poor performance was due to under capacity utilization and management. The 1982 structural adjustment program that aimed also to revive the PEs led to more control by creating more institutions. Coupled with poor technology, it resulted to poor efficiency. Given their significant share in the public sector, privatizing these bodies could lead to improvement of the economic efficiency because private ownership has the incentive to make profit so as to sustain competition in the market, and the promotion of the private sector would modernize the economy as they have the capital for re-investing and inject new technology leading to high capacity utilization.

### **3.4.1.4 Reduction of Fiscal and BoP Deficits, Rationalizing State Operations**

In 1989/90 subsidies and transfers to commercial PEs reached 8.8% from 6% in 1980/81 (Moshi, 1998:10). Hence the need to reduce budgetary and balance of payment deficits as well at that time convinced the leaders on the benefits of privatization. The government could no longer continue to subsidize the loss making PEs while it was not able to meet other basic needs, like the provision of health (treatment and sanitation by accessible clean water) and education. User fee charges were introduced in so called ‘cost sharing’. The spirit that was entailed in the Arusha Declaration for the provision of free social services was reversed. Even the objective of PE’s provision of services regardless of profit did not find flavor at that time, but a burden to the government.

As noted in section 3.2.3, PEs incurred massive debts under government guarantee. Privatization via debt-equity arrangements and purchases in hard currencies could help reduce this debt. There was a “Debt Conversion Scheme, a debt swap mechanism under which prospective investors could obtain hard currency intended for investment at a considerable

discount. In other cases donor agencies notably the CDC and IFC<sup>10</sup> became minority shareholders of privatized enterprises. From a Danish view point the most important example of the latter was Danida's acquisition of large minority share in the Cooperative Rural Development Bank, floated in 1996"(Gibbon, 1999:2).

The deteriorating economy led to fiscal deficits due to high levels of imports as compared to exports. Measures to address this drawback are reflected in the ERP1 in July 1986. "It aimed at increasing the economic rate of growth, improving the physical infrastructure and reducing the deficit in the nation's balance of payments. All these steps did not seem to be sufficient to get the nation's industries operate sufficiently" (Katunzi, 1998). Figure 1 and Table 3 show the country's balance of payment from 1981/82 to 1992/93 when privatization was enforced. From the graph below, while there was a decreasing imports due to lack of foreign currency and exports due to the general economic crisis and the crisis in the PEs (as discussed above), the trend was reversed by the increased imports while the exports remained fixed on average until 1992/93 when they increased, but with little help as imports too increased leading to huge BoP deficit. As shown in table 1, the ratio of net exports to GDP<sup>11</sup> was declining reaching -12.4 in 1985-87, and the ratio of debt to exports<sup>12</sup> increased dramatically from 1982-84 to 1985-87 signifying the inability to pay the debt. The long-term solution was to privatize as the new owners could reorient production from domestic to export markets.

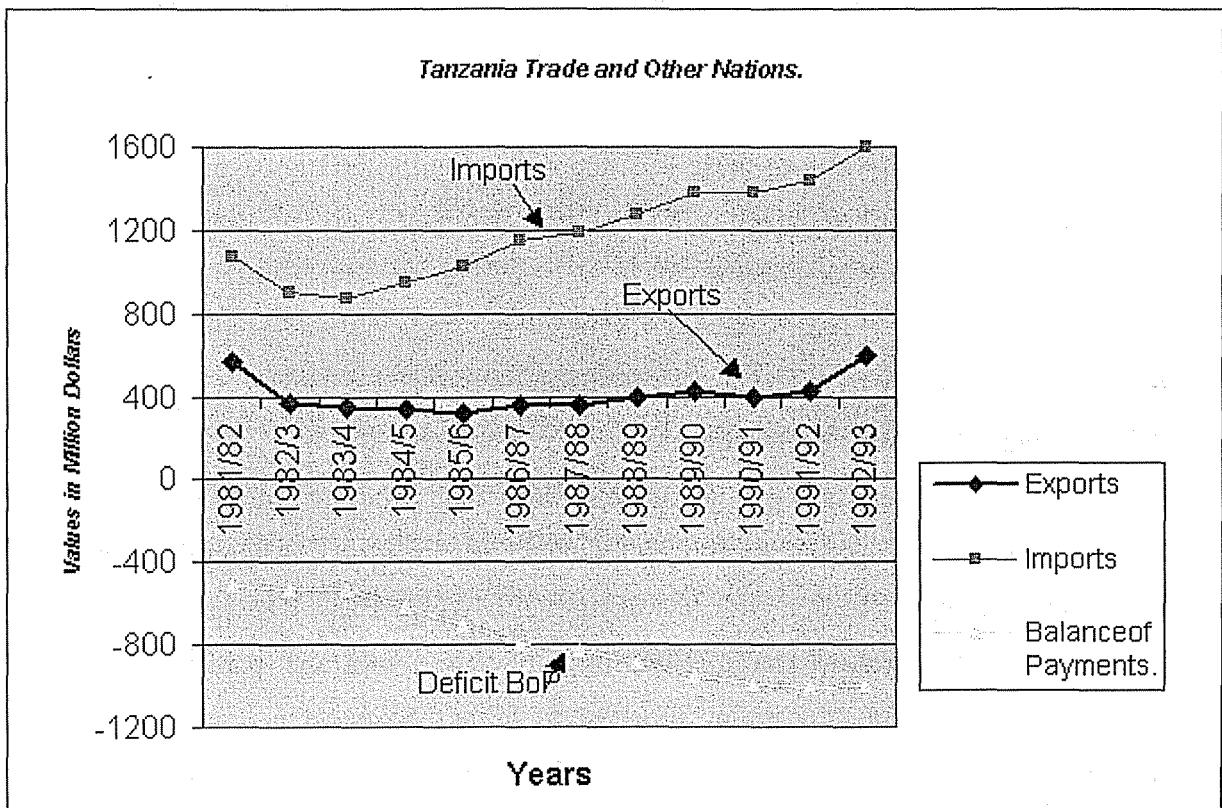
#### **Figure One: Tanzania Trade and Other Nations**



<sup>10</sup> There are no acronyms for these; possibly it implies the Commonwealth Development Corporation and the International Financial Corporation.

<sup>11</sup> Defined as Exports minus imports over GDP times one hundred.

<sup>12</sup> Defined as Debt over exports times one hundred.



### 3.4.1.5 Rewarding Supporters

When they were state owned, PEs were used as a means of rewarding those who were supporting those in power and were influential in the society, by giving them direct employment as managers or positions in the Board of Directors. Businessmen benefited from tender awards. Since by privatizing means loss of such support that is beneficial for electoral politics, that relationship could be restored by selling PEs to party supporters. Manzetti quoted Feigenbaum and Henig (1994) who gave examples of privatizations that led to patronage, a reward for campaign contributions and as a means to lure foreign future supporters by citing United Kingdom and France in the 1980s, Nelson (1994) cited the case of Mexico in the 1990s (Manzetti, 1999:17). For Tanzania, in 1993 Morogoro and Mwanza Tanneries (55% and 60%) were sold to ATD Group (Tz), a company owned by a Tanzanian Asian Businessmen and CCM Member of Parliament, Rostam Aziz for US\$ 1.2m and US\$ 0.9m equivalently respectively (Gibbon, 1999:4). Also 75% of Moshi Tanneries were sold to IPC (Tz), a group of

companies owned by Reginald Mengi (*ibid*). He is also known for the role played by his media by aiding CCM to win the 1995 multiparty elections.

Since the process of privatizing these PEs and evaluation criteria is beyond the scope of this study, and given the limited data, it is not easy to conclude that privatization in Tanzania aimed to reward the party supporters *per se*.

### **3.4.2 The Opportunity to Privatize in Tanzania**

#### **3.4.2.1 Foreign Pressures & Support**

The availability of opportunity to privatize is seen when the government issued the policy statement on parastatal sector reform in 1991, where privatization was part of the government's development strategy. "In line with this objective, a World Bank IDA pre-appraisal mission visited Dar es Salaam in March 1992 in connection with the parastatal reforms and privatization component of a policy program to be agreed under a proposed public sector adjustment credit. The mission's program included work on, among other objectives, the financial analysis of parastatal enterprises, the institutional framework and capacity building, enterprise plans and the restructuring process, parastatal financial restructuring and debt resolution, the social costs of reform and labor redeployment and valuations for the privatization of parastatal enterprises" (Mboge, 1993:226).

The Bank had at various times issued loans to the government that aimed to assist the implementation of privatization program. The example is the Privatization and Private Sector Development Project of December 15, 1999. The credit worth US\$45.9 million equivalent was given. The Bank stated that the project will support implementation of Tanzania's private development strategy, notable through its public enterprise privatization program, banking restructuring, and infrastructure and utilities regulation, which are aimed at improving economic efficiency through expanded private investment and production in the economy and reduction of scarce fiscal resources (World Bank, 1999). The government took this step as a result of foreign pressures to privatize, and the assurance of foreign assistance to implement the policy, notwithstanding the desire to have debt cancellation or reduction as a result of the fundamental economic reforms.

### **3.4.2.2 Availability of Tenders.**

The government was skeptical to get tenders/buyers due to the previous nationalization measures and the small private market. But in 1990 the leadership code that forbidden leaders from acquiring properties was amended by the Zanzibar resolution. Government tried to convince local and foreign investors that there would be no policy reversals towards re-nationalization. With assistance from World Bank in advertisements and via the Internet, skepticism for finding buyers was reduced as most of the advertised PEs for sale attracted both the internal and external buyers.

### **3.4.2.3 Public Mood.**

Given the poor performance by PEs and the general economic crisis, there was a favorable mood that provided opportunity for privatization, though there was no consensus on how to privatize. State monopolies in Telecommunications, water, electricity and intervention in other areas led to poor and unavailable services that even the ordinary citizens asked the rationale for state involvement in such activities that benefited the few. Argentina's privatization programs had favorable public mood that "wanted an economy capable of producing more" (Manzetti, 1993:440). For Tanzania there was no consensus on how to privatize because the policy had a negative connotation; "some people misunderstand privatization, believing that the economy is being sold to foreigners" (Kawishe, 2002: 18).

## **3.5 Conclusion**

Pressures from the World Bank for the government to privatize in the early 1990s after prolonged debate between the two institutions made the government to succumb after the ESAP led to more direct subsidies to parastatals. Although the crisis condition made the government to accept such recommendations, the policy initiative originated from the Bank. Most of the African countries at that time were privatizing their SOEs, so external developments made the government to see privatization as a global phenomena, hence a development strategy.

The desire by the ruling elite to continue in power made them to accept the I.M.F conditions for privatization. Since the economy was bankrupt, poverty reached a stage that it could lead to social unrest. Since multilateral donors withdraw aid to Tanzania unless the country abides to I.M.F/W.B conditions, it was necessary to abide to such pressures so as to get money for financing the basic requirements for revamping the economy. Taking this crucial decision in the political liberalization was risky for the ruling elite. The government tried to convince the public that it was its own development strategy that necessitates taking the decision to privatize, but as it has been analyzed, it lacked the will to privatize, an aspect that is discussed in chapter four also.

## **CHAPTER FOUR: THE IMPLEMENTATION OF PRIVATIZATION IN TANZANIA.**

### **4.1 Introduction.**

This chapter examines the factors that favored and constrained the implementation of the policy in the first and the second phase. It starts by outlining some of the factors that determined the choice of privatization options and then examine the government capabilities, political responses and the technical difficulties. Despite the nature of the policy reform, oppositions from the workers, public and bureaucracy did not constrain its implementation. The feeling of the lack of policy initiative and ownership by politicians (as the policy was viewed as imposed from outside) is cited as the main factor that led to resentment to legislate the bills that could effect the policy, hence slowed the pace for privatization in the first phase. Strong executive that have leverage to other branches of government, and the efforts to educate the public on the benefits of privatization, together with the acceptance of the policy by politicians as it goes on being implemented is cited as the main factors that speeded the implementation of the policy in the second phase. Weak administrative capacity, inadequate financial markets and difficulty in valuation of assets are explained as common factors that constrained the speed of privatization in both phases. Information constraint, restructuring dilemma, soft budget constraint and unreliable markets and infrastructures are explained as the factors beyond the framework that slowed the pace for privatization.

### **4.2 The Implementation Process.**

After the set up of PSRC in 1992 and the legal framework that gave it power to coordinate the implementation of the reform efforts, various methods were used to privatize or reform the PEs depending the nature of each specific parastatal. According to PSRC, the choice of method depends on various factors, some of which are:

- The constraints to privatization,
- The need, if any, to preserve part public ownership,
- The need, if any, to preserve the interests of indigenous shareholders or managers,
- The short and or longer term impact on employment,
- The need to maximize the proceeds of privatization ([psrctz.com](http://psrctz.com))

Given the above factors, various methods have been employed to reform or privatize as shown in table four.

The PSRC Annual Review 2000/2001 states that at the end of June 2001 a total of 326 divestiture transactions had been completed comprising 243 units divested and 83 non-core assets disposed off. The units were divested, either by joint ventures between local and foreign investors or outright sales, or by leases and liquidations (PSRC 2000/01:1).

The analysis of the data shows that 16.5% of all the parastatals earmarked for privatization had been divested up to 1997/98<sup>13</sup>. The same year the term of office for the staff was ending in December, hence only a small amount of divestitures were made. If comparison is made with divestitures made after that period, 71.8% of PEs has been privatized<sup>14</sup>. What factors explain such a big difference?

### **4.3 Factors That Determine Implementation of The Privatization Policy**

#### **4.3.1 Government Capabilities**

##### **4.3.1.1 Cohesive Economic Team**

There was cohesiveness among the various economists on the need for reforms, particularly those in the ministries of finance, central bank and the planning commission (Tsikata 2001:10). According to the questionnaire which was sent to PSRC concerning the existence of consensus among the economists it indicated that since the economists of the said institutions played a great role in advising the government on the liberalization of the economy in the early 1990s (see attached questionnaire Q1 [A]), they also played a great role in advising the government on the policy of reforming and privatizing PEs. But as said before, the IMF and the Bank played a great role in enforcing the implementation of the policy, hence the fact that the economists were consulted could not matter as the policy could be implemented despite the fact that they might have differing views. These economists played a great role in advising the government on the design of the abortive homegrown efforts (as discussed in chapter three).

The main obstacle emanated from the cabinet itself, as there were supporters and anti-supporters of IMF. In order to ensure harmony that could get the implementation through,

<sup>13</sup> Up to mid 1998 according to table four only 61 PEs out of 369 earmarked for privatizations were divested.

President Mwinyi who had adhered to IMF conditions had started efforts to reorganize the cabinet by putting IMF supporters to key Ministries, namely the Ministry of Finance and that of Industry and Trade. According to Kahama, cabinet reshuffle in early 1988 led to K.N.Mwiru being replaced by Paul Bomani at Local government and Cooperatives. C. Kisanji replaced Bomani at Labour and Manpower Development. Daudi Mwakawago was replaced by J. Rwegasira at Industry and Trade; G.Mongela lost her job, but remained without portfolio. But the dramatic reshuffle was in 1990 when the whole cabinet was asked to resign and three ministers, including Mongela who opposed the reforms lost their jobs (Kahama, 1995:25-26). This impeded the implementation in the first phase, but as the program went on, and especially after the political liberalization, there was consensus that facilitated privatization due to interministerial cooperation. For the presence of anti IMF, Tsikata says that, “in Tanzania reforms were popularly seen as imposed from outside, both within government and among the population. This perception was reinforced by the fact that Tanzania’s home grown efforts, rolled out with fanfare as alternatives to structural adjustment, failed to garner foreign support” (Tsikata, 2001:15)

#### **4.3.1.2 Bureaucratic Cooperation.**

The role of bureaucratic cooperation was necessary as each ministry had a holding corporation that had various companies and subsidiaries. PSRC could not undertake implementation without key inputs from each specific ministry. The role of this bureaucratic arrangement is clearly provided by Mbowe, who was the former PSRC chairman that “the establishment of the PSRC was preceded by the creation of sectoral restructuring units in the sectoral ministries. Each sectoral holding corporation has a number of subsidiary companies. Negotiations for divestiture options with potential investors involve several consultations. Sectoral ministries have now created some machinery for conducting negotiations and assessing the value of the assets (and for negotiating with the potential investors). The negotiation machinery is composed of a cross-section of experts from the key ministries who constitute a task force. These task forces, or management committees, are supported by executive committees and technical committees. The function of these task forces is to make recommendations to their

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<sup>14</sup> The figure is arrived by subtracting divestitures made up to mid 1997/98 (which is 61) from divestitures made as up to 2000/01 as a percentage of total divestitures to be made, which are 369.

ministers. In future all these recommendations of the task forces will be forwarded to the commission for examination and final decision" (Mboge, 1993:229-230). The questionnaire that was sent to PSRC adds that the Ministry of Planning and Privatization that is in the Presidents Office, together with the Attorney Generals Chamber and the corporation to be privatized are also involved.

This type of bureaucratic arrangement was too cumbersome, as some of the potential investors could not bear with it, as it was a "...source of irritation to some potential investors" (ibid: 230). This reduced the pace of privatization in the first phase.

#### **4.3.1. 3 Concentrated Executive Authority**

Tanzania had been dominated by a single party since 1965, that allowed party democracy as members of parliament (MPs) could ask the government various questions that had a direct relationship to the well being of their electorates. The difference with the current system of multiparty politics is seen as MPs are supposed to maintain party cohesion; hence the parliament had become a rubber stamp. Addressing the public rally, opposition MPs lamented on the strong executive due to dominance of the ruling party MPs, hence unable to question the government on expenditures. (Sunday Observer, 11/8/2002). During the same era of single party system, socialism was well taught by party cadres and it was well entrenched in the minds of both the politicians and the public at large. This had impact at the early stages of implementation of the privatization. Although the previous legislature passed the bill that authorized privatization, there was still resentment among the MPs on the manner at which it should be implemented. Moshi (1996) gave an account of parliament silent resistance that there was "...the contention that the policies of the present reforms have been imposed through outside pressure. This political resistance manifested itself in the April parliament session. Most of the members of parliament were not in support of the privatization exercise. As a consequence a number of acts and laws which were to be amended in order to pave the way for the implementation of the exercise were either not tabled or were amended cosmetically" (Moshi, 1996:86). The executive was not strong enough to get the parliament on the path to privatization. The manifestation of this was the "slow decision by the government on either policy issues or approval for divestiture of particular enterprises. Some policy makers and the

general public have questioned the rationale for the government to carryout wholesale privatization of state assets" (Dzakpasu, 2001:10). This situation constrained the pace for privatization in the first phase, as the second phase was under strong executive that had leverages to the other branches so able to fasten privatization.

#### **4.3.1.4 Technical and Administrative Capacity.**

The concentrated economic team (in this case the PSRC) technical and administrative capacity to establish programs that are easily implementable is the major determinant in enhancing implementation. PSRC is made up of 8 commissioners who are divided into smaller teams of 3, for negotiations with selected bidders. Two amongst the indicators used to judge the successfulness of the privatization program is "the magnitude or volume of sales" (Berg, 1996:233) which involves "both the completed deals and those in progress" (White, 1998: 106) and "the financial impact on government" (ibid. page 106).

To guide the program, PSRC prepared the Parastatal Privatization and Restructuring Master plan in September 1993 where a total of 369 parastatals were earmarked for sale. The first phase (under the former commission) was supposed to have completed privatization and reforms by 1998, but up to this time under the new commission, the program has not been completed. The thrust of privatization in the first phase was little, due to the fact that most time was spent in preparing the PEs reports as "assets and liabilities has to be assessed" (Due, 2000:2). According to PSRC 2001/2002 the current Commission is expected to end its term in 2003, but as at 30<sup>th</sup> June 2001, 72 companies that includes 126 units were not yet privatized but under early stages.

In judging the thrust of privatization for nine years (1993-2001) in Tanzania, the speed has been very slow. In assessing the financial impact on government, about 146 billion Tanzanian shillings had been accrued from the sale of parastatals (Tomric Agency 2000:2). However, PSRC had been unable to collect the divestiture proceeds from the new investors who have acquired PEs after the memorandum of understanding has been signed. According to Business Times News Paper, a textile mill located in Dar es Salaam (the capital city) that was divested five years ago is yet to pay US\$2.14 million to PSRC. Another investor bought a firm valued at US\$2.4 million paid to PSRC only US\$260,000 leaving a balance of US\$2.14 million whose

interest has accumulated to US\$708,340 over the last three years. The total cost of the debt has therefore risen above the value of the project. Another firm was divested at about US\$818,000 but the investor paid PSRC only US\$120,000. This firm is now supposed to pay US\$844,580. It was estimated that about US\$8 million (Tsh 6.7 billion) had not been collected by PSRC from various investors. (BTNP Sept 20, 2002).

PSRC has not been able to monitor how effectively the privatized enterprises are operating. Investors are not allowed to use the acquired enterprises as mortgages to obtain loan from the banks. Contrary to this, one investor mortgaged the assets that he is yet to pay the full amount for a total of US\$1.8 million from the local bank. Some privatized PEs has stopped operations and engaged in other type of activities. This is due to poor selection of credible investors. According to Due, Light Source manufacturing, which manufactured bulbs and florescent tubes, was privatized in 1995 where the investor owns 51% of shares and the government 49%. Due to cheap imports of the same products, the company was closed and some of the buildings were hired for other purposes (Due, 2002:27).

These types of privatization failures had negative effects as they made the would-be investors to consider the investment risk in Tanzania. PSRC in 1998 commissioned a research where it found out that “there is a declining trend in net proceeds to the Treasury prior to privatization and an increasing trend after privatization,” and that “non-privatized enterprises<sup>15</sup> have shown a declining trend in net cash flows to the treasury over the last three years” (PSRC 2000:29). This shows the PSRC weak capacity in designing privatization strategies, as according to the questionnaire, PSRC provides legal advise and draft transaction agreements on behalf of the government, and despite the fact that they have legal experts and contracting third parties to handle cases in the court. Judging the administrative capacity of PSRC in these indicators is that the commission lacked the technical and administrative capacity to manage the process effectively in the first and second phase hence slowed privatization.

#### **4.3.1.5 Speed.**

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<sup>15</sup> Non Privatized PEs are those that did not lead to ownership transfer to the private sector, i.e. performance contract (PSRC 2000).

Government capability can be seen on speed at which the program had been carried on. Sachs (1991) analyzed privatization in Eastern Europe and found that ‘...if there is no breakthrough in the privatization of large enterprises in the near future, the entire process could be stalled for years to come. The sooner an administration can devise and implement a privatization policy, the quicker a government can sell its PEs’ (Manzetti, 1999:25). As explained earlier, the privatization process in Tanzania has been very slow despite the fact that many PEs were privatized after 1998. The policy itself provided for the classification on strategic and non-strategic enterprises. Those that are strategic were to be preserved, while the loss makers were to be divested earlier. This led to slow down in taking actions, and those that were disposed for sale did not find bidders, as despite being in bad technological and physical conditions, PEs had massive accumulated debts that deter investors from taking a decision to purchase them. White (1998) also found that some countries also tried to sell big loss makers by citing the example of Southern Paper Mill in Tanzania (White, 1998: 47), which benefited from a debt write-off of some Tshs. 35 billion in 1994/95 ([psrctz.com](http://psrctz.com)). A Sample study by the PSRC indicates that total parastatal indebtedness to foreign creditors as at 30<sup>th</sup> December 1995 was in excess of Tshs. 1,000 billion ([ipanet.com](http://ipanet.com)) (The same figure by Moshi citing Malima 1992 and Haggerty 1992 shows that it involves internal and external creditors as at June 1992 (Moshi, 1996:84).

The choice of method for privatizing a particular enterprise also delayed the privatization process. Issues of indigenous participation arose as the process went on, and they were not given due attention in the planning process. According to Moshi (1996), “the question of indigenisation would not have arose if the announcement of the privatization policy was immediately followed by establishment of a ‘facility’ or fund to enable or raise the ability of indigenous Tanzanians to participate fully in the purchase of assets of or shares in the would be privatized PEs. The unfolding of these issues (gaps) indicate clearly the non-existence of a coherent and a comprehensive plan or strategy for the management of the privatization process...” (Moshi, 1996:87).

Resistance to privatization resulted from the fact that “until 1995/96 all the enterprises that had been privatized had been bought by non-citizens” (Mtatifikolo, 1998:21). While it has been

provided that many leaders and the public had to undo many of the socialist legacies, the bureaucratic arrangements are too cumbersome that they have led to “a tendency of inertia or indecision. A few transactions have fallen through because of inertia or indecision to take specific decisions at various levels of this bureaucratic arrangement” (Mboge, 1993:230). Hence most deals take up to 18 months to be completed, and for the few like the Aluminium Africa<sup>16</sup>, negotiations took 4 years to complete the deal (Due, 2000:11). This delayed privatizations in the first phase.

In the recent years attempts were made to fasten the privatization of small enterprises through a method called fast track<sup>17</sup>, which is done by a special committee under the prime Minister (URT, 2002:12). This made possible to divest large number of PEs in the second phase.

Workers litigation also delayed the speed at which privatization was carried on since legal issues had to be resolved before privatizing a parastatal that has been put in a master plan for privatization in a particular year in both phases.

From the current labor resistances in privatizing monopolies and big parastatals, it is evident that PSRC’s strategy to start privatizing small enterprises enabled it to have a major breakthrough in the already privatized PEs.

#### **4.3.2 Political Responses**

##### **4.3.2.1 Civil Servants and Trade Unions/PE Employees**

The policy of privatization has short-term costs and long-term benefits. In the implementation of any policy, resistance is likely to emerge from the public or bureaucracy depending on the distribution of costs and benefits. The distributions of costs are borne immediately to employees of the PEs that are to be privatized. Most of them had devoted their energy to serve them (though they performed poorly). Privatizing them means loss of the family silver. Hence political responses from the employees and managers emerged when the policy came into

<sup>16</sup> According to Gibbons 1999, it was divested 100% in 1992, But official psrc report say it was divested on November 1995 and sales agreement signed on 25/03/1997 with government maintaining 60% of shares (psrc, 2001:18).

effect by opposing it. This was due to the fact that the economy could not provide alternative sources of employment, if privatization could lead to layoffs. According to the report of the GoT (1996) as quoted by Bennell, 'workers at four relatively large SOEs in Tanzania took legal action against the PSRC during 1994 and 1995 but, on each occasion, their attempts to prevent the sale of their companies were given short shrift by the courts' (Bennell, 1997:1797). Also PSRC in 1997 admitted that delays in implementation of the policy stemmed from "worker litigations" (PSRC, 1997:4).

Opposition by workers emerged even after nine years of privatization, especially privatizing big parastatals (infrastructure and utilities). On 20<sup>th</sup> December 2001, the GoT contracted Net Group Solutions a management contract to manage Tanzania Electric Company (TANESCO) for two years. Early this year, employees demanded that their benefits should be paid first, leading to strikes and threat to cut-off electricity the whole country (infact the reform could not lead to change of corporate status). When the parliament threatened to block the exercise, the President had to meet the ruling party members of parliament to clarify the issue so that they could support the government strategy. On April 16 this year, the Prime Minister also clarified the privatization strategy to the parliament. Workers resistance to privatization in monopolies is seen in attempts to privatize Tanzania Railways Corporation (TRC). According to PSRC annual review report 2001/2002, TRC railway lines/stations is scheduled for privatization by concession, and the marine division was to be divested by selling 51% shares. In preparations for its privatization, the government intended to lay off employees. According to Alasiri Newspaper, the employees sued the government and PSRC, where the Judge ordered the retrenchment exercise to be delayed until the case that was opened was to be resolved ([www.ippmedia.com/Alasiri](http://www.ippmedia.com/Alasiri)). The court is said to have ruled in favor of the TRC and the government in this regard. The Dar es Salaam Water and Sanitation Authority (DAWASA) which is on the initial stages of privatization has also been sabotaged, according to The Express News paper, by distributing photographs via the internet (and is shown in this newspaper) showing a crocodile that was pulled off from one of the pipes that distribute water to the city, and it is said one photograph (which is not in the magazine) shows a pipe full of

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<sup>17</sup> No literature that shows the date which it commenced, and when PSRC was requested by email as to when it came into effect and the number of PEs privatized by fast truck did not respond.

snakes ([www.theexpress.com](http://www.theexpress.com)). This seems to be an attempt to discourage the would-be potential bidders and investors, as the authority apart from been a monopoly is also the biggest employer in the city of Dar es Salaam.

Workers resistance to privatization arises from the fact that there are no social safety nets that could support them when they are retrenched. Adding to that, there is no clear specification of who will be responsible for paying the terminal benefits to the retrenched workers. The PSRC 2000/2001 report provides that the financing of retrenched workers is to come from the central government funding sources, PSRC special funds or sale of capital assets (PSRC 2000/2001: 5). These institutional arrangements provided a vacuum as far as remunerations is concerned. The report by ILO (1998) by Fashoyin provides that workers are not represented in PSRC as far as privatization is concerned, despite the fact that the original law setting up the commission regards workers as stakeholders, and that there is no functioning machinery for consultation between the commission, workers, trade unions and the enterprise management (Fashoyin, 1998:2,3). While stakeholders are considered potential for the realization of any policy objectives, PSRC has refused a tripartite consultation from the fact that "...the issue of funding has stalled any concrete initiative in this regard. As a result, the PPSRC has resorted to recommending the application of the statutory provisions in the labor" (Fashoyin, 1998:8). This is because the existing labor laws that were legislated during the colonial era could lead to just minor severance pays, so that PSRC could maximize from the sales proceeds. Consequently, under the Severance Ordinance (1955), the law provides for 1day pay for each year of service. Thus, a worker of say 30 years of service will be entitled to 30 days of terminal benefit. If the worker were on the minimum wage, his terminal benefit will be no more than Tshs 17500! (ibid. page 9). Knowing that the severance packages are very minimal, and the PSRC refusal to engage in consultation with workers on possible payment regardless of the existing labor laws; these are the core areas of labor controversy as far as privatization is concerned.

While in Checz Republic managers supported the privatization exercise and were involved in the privatization design, in Tanzania, according to the managing chairman of PSRC, managers and body of directors opposed the exercise due to their own private motives (Rubambe,

2002:24). In Bulgaria opposition by managers also hampered the pace of privatization. Opposition from the civil servants is not explicitly shown and influential, but the fact that there had been long delays in the process at various levels implies that there is fear of the loss of influence by civil servants in these bodies. Hence resistance for privatization mainly from labor delayed privatization in both phases.

#### **4.3.2.2 Pro Privatization Political Base**

Since the distribution of costs is not an immediate effect to the public, there was no immediate response as the distribution of benefits is seen to be a longer-term aspect. Opposition arose from the feelings that PEs are been sold to foreigners (Dzakpasu, 2001:10, Mbewe, 1993: 232, Kawishe, 2002:18). When the policy was initiated, there were very little efforts made to inform the public about the new government development strategy, contrary to Arusha Declaration that sought popular public support by demonstrations. Since the country embedded on the liberal economy, most policies that sought to reform the economy are not made public as its predecessor socialist policies. According to Mtatifikolo, “the overall socio-economic context within which the reforms are put is the so called ‘Shadow Program’ that has been operating since the expiry of ERP 11; called shadow to emphasize the fact that it is really never public. It is operated following an agreed upon Policy Framework Paper” (Mtatifikolo, 1998:20). Hence opposition from the public is due to “inadequately informed public on the privatization of parastatal enterprises” (Dzakpasu, 2001:10). This led to absence of pro-privatization political base.

The new phase saw the speeded privatization from the fact that major efforts were made to inform the public on the benefits that will result from reforms and privatization of PEs. This had been done through radios, leaflets and bimonthly newsletter that shows companies that were privatized and they are operating profitably. Journalists were taken to visit some of the privatized firms in Tanga region to see how they are performing (PSRC May-June 2002). Those companies that have good performance are been used as a show case, like the Tanzania Breweries Company (TBL) that have a big market in Tanzania for its products, and the new product lines that emerged after its privatization.

### **4.3.3 Technical Difficulties**

#### **4.3.3.1 Market Failures.**

Implementation had also been hampered by market failures that arise due to illegal imports that led to unfair competition to the privatized firms. The closure of the light source manufacturing is due to market failures that arise from the imported cheap bulbs from India. Aluminium Africa that is owned by a Chandarya group has been closed, and it is said they are engaged in importing the same products from Kenya. Smuggling had also been a problem. According to the East African, the problem of smuggling was seen when Illovo & ED & F Man took over Kilombero Sugar Company by 75% shares in April 1998. Due to workers strikes against dismissal of 61 employees in June 2000, the company officials who met the President on his visit to Durban in July 1998 threatened to pull out of the country, unless his administration do away with hostile environments in its operations that result from the rampant sugar smuggling into the country. Few days later, TRA ordered all sugar importers to deliver their cargo in large vessels to the ports of Dar es Salaam, Mtwara and Tanga. ([www.iuf.org](http://www.iuf.org)). The problem of market failure is attributed by the lack of adequate regulatory mechanisms after import liberalization measures. This deterred would be potential investors to come and purchase the companies being privatized, hence slowed the privatization exercise in both phases.

#### **4.3.3.2 Inadequate Financial Markets**

The presence of “underdeveloped formal domestic capital markets, which make (*made-my addition*) divestiture problematic” (Moshi, 1998:112) in valuing the value of shares of the PEs to be disposed to the public. Since most of the PEs were making loss (and so huge debts) and had assets deteriorated in value, it became difficult to determine the value of shares that were to be sold for joint ventures with the government. Consequently, it delayed the execution of the program since its inception in 1992 to date.

#### **4.3.3.3 Difficulty in Valuation of Assets**

The problem of asset valuation delayed the pace of privatization due to different methods used by the government and the buyers to determine the value of assets. The research by Moshi (1996) on the privatization and commercialization of leather, cement, hotel and edible oil sectors and sub sectors (hence for other PEs) found that “whereas the bidders used the expected

future earnings method in the valuation of assets, the “sellers” used the replacement value method<sup>18</sup>. However during the negotiations the former always won” (Moshi, 1996:83). Since PSRC hasn’t that knowledge, it hired international firms on contract basis to undertake valuation. A good example is the Swedish Development Advisers AB that was involved in the privatization of Southern Paper Mill, management and support to privatization and restructuring process for seven parastatal industrial support, Financial and Technical analysis of and preparation of privatization options for Mbeya textile Mills for the Ministry of Industries and Trade ([www.swedevolop.com](http://www.swedevolop.com)).

Despite of the use of foreign firms in valuation, still some problems occurred, especially for enterprises that were heavily indebted. The Kilimanjaro Hotel has failed to get buyers since it was advertised for privatization in 1996 as bidders withdraw due to the prices attached to it, leading to re-bidding for 2001/2002. Another example of difficulty in valuation is the National Bank of Commerce (1997) Ltd (formerly the National Bank of Commerce was split into NBC (1997) Ltd and the National Micro Finance Bank (NMB). NBC (1997) Ltd was set for privatization by 70% shares to investors. While the government agreed with Amalgamated Banks of South Africa (ABSA) to sell it at 21 billion Tanzanian shillings, two senior Tanzanian officials had to fly to South Africa to re-negotiate again, and it was sold only at 15 billion Tanzanian shillings. This proves the above research by Moshi that during negotiations the buyers always won.

When PSRC was asked if there had been a difficulty in the valuation of assets, they said it had never been a problem (infact other writings/publications from PSRC officials agree to be a problem). But when they were asked if there had been a lack of competitive bidders that necessitate sale below the market price, the response was that other factors than price are considered, like the technical bid, which entails an overall business plan and project implementation plans, as well as capacity of the investor to run the particular business, has to conform to the financial proposal submitted by the bidder. But this criterion had been flawed. According to BTNP, investors have been presenting wrong business plan data during business plan presentation stage. This is due to misunderstanding/conflict between PSRC, and TIC and

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<sup>18</sup> This is similar to the larger sample by Bennell discussed in chapter two.

the holding Corporations arising from the roles given by the law. While PSRC deals with the divestiture program, TIC seeks investors outside the divestiture program. But they are supposed to present their business plans to TIC even if they are concerned with parastatals to be divested. When TIC was asked to be involved in PSRC's scrutiny meetings or business plan review of the bidding companies, PSRC refused (BTNP, September 20, 2002). This raises suspicion about this criterion, and an accusation that the privatization process lacks transparency and is full of corruption seems to be true. Henceforth, the problem of valuation of assets delayed the quick implementation of the policy since it was passed to date.

#### **4.4 Other Factors that Constrained Implementation of Privatization**

Despite of the above-mentioned factors that fall within the analytical framework, there are other factors that have constrained the pace of privatization in Tanzania that the framework doesn't address, as discussed below.

##### **4.4.1 Information constraint**

There had been the problem of availability of reliable information about the subsidiary companies that are to be privatized. This stems from the "Treasury Circular No. 1 of 1992 which has terminated the role of the holding corporations over their subsidiary companies" (Mbowe, 1993:230) Absence of such vital information that are withheld by the Holding corporations, "set in motion a wave of potential constraints in conducting negotiations for divestiture options" (ibid.). Since the termination of Holding Corporations roles on such bodies came into effect since the divestiture exercise started, it is evident that this constrained the speed of privatization for the entire period though it was necessary to cut such powers as their continuous roles on such companies could lead to opposing privatization.

##### **4.4.2 Restructuring Dilemma**

The government faced the dilemma of restructuring most of the enterprises that were performing poorly so that they could be in a good condition to maximize proceeds from their divestiture. It is well known that poor performance and inability or unwillingness of the government to continue subsidizing PEs calls for the need to privatize them. Since a huge amount of capital was/is needed to restructure them, the government had "either it sells these

enterprises at an agreed price less debts or it invests in restructuring the enterprises with a risk that it may or may not get a good buyer" (ibid.). This delayed privatization in the first phase, in the second phase decision was made to liquidate those that deemed unprofitable.

#### **4.4. 3 Soft Budget Constraints**

The government made a decision to reform PEs by lease, entered management and performance contracts with the aim of improving the operational status of the concerned PEs. The International donors put a condition on government to put hard budget constraints on PEs so that they could increase efficiency and so a less burden to the government. Since the government was in high demand for aid from donors, attempts were made to establish hard budget constraints in each financial year. But the PSRC impact study on privatized enterprises found that non-divested enterprises were gradually contributing less to the Treasury, while requiring increased levels of subsidy (PSRC, 1998:24). Table five shows the trend of transfers between the Treasury and the non-divested PEs. This shows that the treasury continued to support PEs that were still under government ownership, and this delayed the pace for divestiture. This trend is similar to that of Berg's study of privatization in SSA that the slow pace of privatization is "the existence of a soft budget constraints" (Berg, 1996:250) that occurred after privatization due to "easy access of many African countries to foreign assistance reduced their need to make hard budgetary choices" (ibid.). Tanzania's access to foreign aid after liberalization and privatization can be cited as the factor too for continued subsidies on the non-divested PEs. Since the data on table five is up to 1997, it is not known if subsidies were given to PEs in the second phase, consequently this delayed privatization in the first phase.

#### **4.4.4 Unreliable Markets and Poor infrastructures**

Foreign investors prefer to invest in countries that have a relatively sizeable domestic market and favorable infrastructures that could facilitate production and exports. Tanzania is well known for its small domestic market due to poor performance of the economy for a long period. The fact that per capita income is one of the lowest in the world (US\$ 210) implies a low purchasing power. This had been due to poor economic growth, averaging 0.4 % in 1992/93 (PSRC, 1998:19) when privatization started. Inflation had been high, and the shilling had been depreciating since 1993 due to the flexible exchange rate adopted in 1992. This

situation had not favored exports. Uncertain power distribution (i.e. in 1996/7 there was severe drought that led to power rationing), poor infrastructures (roads, railways, water and telecommunications), combined with the above economic situation created skepticism to would be potential buyers. Mbewe is of the same argument that buyers' inertia, among other factors was caused by "economic uncertainty about the success of the current SAP(s)" (Mbewe, 1993:231). This situation is likely to have delayed the pace of privatization in the first phase, as there was improvements in the economy from 1998 onwards that attracted investors.

#### **4.5 Conclusion**

From the above accounts, the slow pace of privatization in the initial phase was greatly the result of lack of political will from the decision makers towards privatization. This was due to the perceived feelings that the policy was imposed from outside and that it therefore lacked local initiative and ownership. The leadership of A.H. Mwinyi (1985-1995) though embraced the I.M.F and the Bank conditional lending was not strong enough to influence the legislature and the civil servants to comply on implementation of the policy. The third regime under Mkapa (1995-2005) has embraced more of the I.M.F and the Bank conditionalities, and had been stronger to influence the multiparty parliament that is dominated by the ruling party. The long debate between the government and these International Financial Institutions (IFI) discussed in chapter three-showed lack of willingness to take decisions to privatize that is therefore manifested in the slow pace of privatization. Many bureaucratic arrangements, sellers' inertia and lack of public information on the new policy direction are the manifestations of the absence of political will. This view is similar to that of the larger sample of SSA by Berg who found that "the fact that privatization has come to be so widely viewed as imposed by the Bank and the Fund, and not truly home grown, has diluted political will and support" (Berg, 1996:246). "Lack of political will is the factor that is perhaps the most often cited in explaining slow privatization in Africa..." (Ibid: 249).

Privatization came to be accepted as the process goes on, due to good performance by those that are used as show cases, most of which are consumable and intermediate industries (i.e. beers and cigarettes, cement, etc). Efforts to mount public campaign on the benefits of privatization, the role of the Judiciary ruling in favor of the government, strong executive that

have been able to convince the public that reforms and privatization are due to poor performance of PEs accelerated the pace for privatization in the second phase. Hence, if there was a high feeling of policy initiative and ownership, the pace of privatization could have been speeded and the exercise could have been completed for the nine-year period in Tanzania despite the fact that socio-economic factors as well became a constraint in the pace for privatization. Hence, the ability to privatize is not solely the result of government capabilities, political responses and technical responses, but is also influenced by the policy initiative and ownership.



## **CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS.**

### **5.1 Introduction**

This chapter summarizes the main research findings by looking at the decision to privatize and the implementation of the policy. It looks at the factors that were favorable and unfavorable in privatization in both phases, and those that were deemed common to constrain privatization in both phases. Since the success in privatization depends on the willingness to privatize, an account of whether the government has exited from business is given, where it is found that the GoT is still in business (contrary to most of the African countries, which calls for the need for further research as to why it has maintained minority stakes in Industry and agriculture despite the fact that majority ownership has not been attained. Recommendations for the government on factors that still constrains privatization is given.

### **5.2 The Decision to Privatize.**

The state's visible hand in the market that sought to put the commanding heights of the major means of production in the hands of the local indigenous Tanzanians (Called *Wazawa* in Swahili) led to state capitalism that entrenched into all spheres of life (in production, distribution and provision). The paradigm was justified on the nature of post-colonial states' mission to have a balanced development for its citizens and was supported by donors, especially the Bank when McNamara's was the president, Scandinavian countries, the Netherlands and Canada. According to Hyden, support was due to the "genuine belief in those countries that state intervention in an egalitarian direction was ethically right and economically efficient" (Hyden, 1993:1396)

The Principal-Agent theory and the Property Rights theory explained why state centrally planned economy failed (especially the PEs in this context). Since the state was bankrupt financially that it could not support itself, it had to seek foreign assistance. The fall of communism and moral power in the International relations means that statism was dying away, and unable to bargain with its former donors who called adherence to IMF and Bank lending conditionality for further aid. This had an implication as far as the making of public

policies is concerned, as whereas Bank staffs were involved in the making of the abortive homegrown SAPs, the latter later assumed the role of a policy maker whereas the government was to implement so as to qualify for aid. The long debate between the government and the IFI on parastatals particularly in the manufacturing sector from 1982 to 1991 and the subsequent privatization policy in the 1993 is the case in point.

Despite the fact that the economic crisis provided an opportunity for the government to privatize, the willingness to take decision to privatize is seen to be a desire by the politicians to continue to be in power, hence to supplement the lost revenues in the government coffers with donor support in order to meet the basic necessities, there were no options left to them rather than to privatize. The government's inertia to take decision to reform and privatize (as discussed in details in chapter 3) is the manifestation for the lack of willingness to reforms and privatization. The other stated factors for the decision to privatize are used as a cover to show that the reforms are home grown so as to secure the public support. This is true as far as broadening ownership is concerned, as it is only a significant proportion of Tanzanians (Wazawa) who owns the privatized enterprises.

### **5.3 Implementation of the Privatization Policy**

Implementation in the first phase was made possible by the presence of cohesiveness among economists who plays a great role in advising policy makers on various economic policies (however the role of foreign pressures was deemed to be more significant). With shares views, this facilitated bureaucratic cooperation among various sectoral ministries as each had a task force with the duty to make consultations with investors.

Lack of pro-privatization political base was due to negative connotations attributed to the policy, as the economy was seen as been handled over to foreigners, and the long ideological underpinnings among the Tanzanians. The public was not well informed about the new policy, as there was no debate at various levels as its predecessor policies. Most politicians had the feeling of the lack of policy initiative and ownership that led to silence opposition, where at the same time the executive was weak. Opposition by workers through litigations delayed implementation in both phases and civil servants through the bureaucratic inertia delayed implementation in the first phase.

The second phase was characterized by public education, and most politicians came to accept the policy as it was unfolding. The executive was stronger than the legislature, hence it supported in legislating bills that aided implementation. Fast track method was introduced in the late 1990s to privatize small PEs by skipping some procedures involved in privatizing monopolies.

Other factors were common in thwarting privatization in both phases. PSRC lacked administrative capacity that was manifested in uncollected debts; it also lacked technical capacity in valuation of assets, where bidders were always winning.

Judiciary had been ruling in favor of PSRC that aided implementation in both phases.

The factors beyond the framework, like information constraint slowed the pace for privatization due to the missing vital information withheld by the holding corporations for subsidiary companies. The dilemma whether to restructure PEs so as to accrue good proceeds, soft budget constraint due to continuation of subsidies, and unreliable markets and poor infrastructures slowed the pace for privatization in the first phase.

## **5.4 Problems Analysis and Recommendations**

### **5.4.1 Is the government Still in Business?**

The PSRC annual review 2000/2001 indicates that 72 PEs made up of 126 units were at the early stage of divestiture as at 30<sup>th</sup> June 2001. The report also shows that 41 PEs made up of 50 units were at the advanced stage of divestiture (at MoU stage). Analysis of the report also shows that for the divested enterprises as at 30<sup>th</sup> June 2001 the government maintained equity by joint ventures in 29 PEs, with the Ministry of Industry and Agriculture comprising 16 joint ventures. In all cases, the government remained with the minority shares except the TTCL where it retained 65% of shares. The GoT maintained joint ventures for PEs at the early stages of divestiture, where the Ministry of agriculture was leading with 23 cases, followed by that of Industry and Trade to maintain with 10 cases. This category comprises monopolies like TRC marine, Air Tanzania Corporation, UDA (Dar es Salaam public Transport), National Micro Finance Bank, the National Insurance Corporation and TANESCO. This explains why PSRC applied for extension of terms of office to 2004. The total of joint ventures in divested, those at the initial and last stages of divestitures as at 30<sup>th</sup> June 2001 is 71, which is equal to 19% of

all PEs set for divestiture. The comparative data by Mugerwa for privatization in Africa from 1990-98 showed that Tanzania had 21 joint ventures, while Ghana had 5 and Uganda 6 (Mugerwa, 2002:16) From this analysis, it is evident that the government has not exited from active participation in business, and that ‘joint ventures reflect the latent resistance to fully-fledged privatization by the Tanzanian bureaucrats’ (ibid). This is contrary to the study by Bennell as quoted by Due that in Africa “the majority of countries the state has divested its entire ownership stake in SOEs that have been sold, only 14% continue to have state involvement after privatization” (Due, 2000:38). Since majority of joint ventures are in industry and agriculture that are mainly profitable, and majority ownership had not been achieved, this necessitates a further research to explain why the government is still in business. But given the problems that have occurred, like the privatization failures, and the government’s unwillingness to inject capital in joint ventures, i recommend the government to exit from business and maintain stakes in strategic areas, notably the monopolies.

#### **5.4.2 Privatization Vs Unpaid Debts**

But the task that remains is how to collect the massive accumulated debts discussed in chapter 4 arising from investors who failed to honor their second payments. It seems LART’s role for collecting bad debts of the former NBC from PEs and individuals will shift to collect debts from the privatized enterprises, adding more costs to the government. While investors has used the divested enterprises to mortgage for loans (contrary to the provisions), the government should increase its capacity to collect those debts and ensure that loans acquired by them from banks are paid in due time, because if they will fail in business (as some of the divested PEs), the government will end up with empty factories, and the entire banking system may be troubled.

#### **5.4.3 Privatization Vs Broadening Ownership**

The extent of wider ownership of the privatized PEs (discussed in chapter 3) is still small given the number of the PEs that Tanzania had before. Despite the fact that 122 parastatals attracted Tanzanian investors 100% (including 10 MEBO) and 57,000 has bought shares, this is unconvincing that the aim of broad ownership had been achieved. It is not known whether it is the indigenous or the Indian Tanzanians who owns the majority of those 122 firms. The

government encouraged employees to purchase shares from the public enterprises that has been privatized, but given the status of low wage in Tanzania that is said to be one of the lowest in the World, it is clear that most of them will not be able to acquire shares. In Britain, employee loan scheme was established to enable them acquire shares, and special terms of offer were formulated in the case of employees (and pensioners) of a privatized enterprise (i.e. Amersham International plc had 35 shares free at the government's expense) (Ramanadham, 1989). Hence there is need for the government to put in place deliberate strategies like this to enable employees own privatized firms.

For the case of the wider public, the Privatization Trust (PT) that geared to assist the public to acquire shares has taken too long time to be established. While foreigners were not allowed to purchase shares disposed at the DSE when it came into effect, recently the door has been opened. The implication for this is that since majority of the Tanzanias failed to purchase shares though they have been widely advertised, the foreigners will buy most of them. This seems to be a problem as far as widening ownership is concerned in poor countries, as in Bulgaria, according to Rock; mass privatization program involved subsidized vouchers for all adult Bulgarians in 1996. Though the value of vouchers was less than US\$ 10, the turnout was slow and less than 20 per cent of those eligible purchased them (Rock, 1997:107-108). For Tanzania foreigners are likely to dominate the market, unless they are barred from purchasing shares from previously SOEs that infact belongs to the government, and the PT should come into effect immediately to enable the majority purchase shares.

#### **5.4.4 Strengthening Institutional Cooperation.**

It had been seen that PSRC and TIC are in conflict as far as attracting investors is concerned. This loophole enabled investors to present wrong business plan to PSRC at the business plan presentation stage. It is possible that the current TTCL crisis could have been avoided if such institutions cooperated. And in privatizing the remaining monopolies, their joint efforts is very crucial as they represent the country's economic standing in the future.

#### **5.4.5 Accepting A Tripartite Consultation.**

Most of the oppositions by employees and their organized unions could have been eased if PSRC could consist representative/s from the central labor union. Currently the former trade union Secretary General stands at the PSRC Commissioners at his own standing even before the election that led to his non-reelection, hence he was not representing labor interests. According to the questionnaire that was sent to TUCTA, the government (President) during the privatization workshop for trade union leaders ordered PSRC to involve trade union leadership in the PSRC technical committee that prepares recommendations to the PSRC Board on the privatization process, and implementation of this order has not yet started. It is my view also that unless such an arrangement is sought soon, the problems that aroused in TANESCO will appear again when its divestiture will take place as scheduled. The same will be to other monopolies like DAWASA and TRC.

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December 15, 19

1. **Project Description**  
The Tanzania Privatization and Private Sector Development Project (TPSDP) is a World Bank-supported program designed to facilitate the privatization of state-owned enterprises (SOEs) and to promote the development of a private sector in Tanzania. The project aims to achieve this through a combination of policy reform, institutional strengthening, and operational support for SOEs and the private sector.

2. **Objectives**  
The main objectives of the TPSDP are to:

- Facilitate the privatization of state-owned enterprises (SOEs) and the transfer of assets and liabilities to the private sector.
- Strengthen the institutional framework for privatization and private sector development.
- Provide operational support to SOEs and the private sector, including technical assistance, capacity building, and market-oriented reforms.
- Promote a conducive environment for private sector investment and growth.

3. **Key Features**  
The TPSDP features a multi-pronged approach to achieve its objectives, including:

- Policy Reform:** The project supports the implementation of policy reforms that facilitate privatization and promote a market-oriented economy.
- Institutional Strengthening:** The project supports the development of institutions responsible for privatization and private sector development, including the National Commission for Privatization (NCP) and the Tanzania Private Sector Development Agency (TPSDA).
- Operational Support:** The project provides operational support to SOEs and the private sector, including technical assistance, capacity building, and market-oriented reforms.
- Private Sector Development:** The project promotes the development of a private sector through investment in infrastructure, market-oriented reforms, and the promotion of private sector investment.

4. **Implementation**  
The TPSDP is implemented through a combination of policy advocacy, institutional strengthening, and operational support. The project is managed by the World Bank, with technical assistance provided by various international organizations and local partners. The project is expected to be completed by December 2004.

5. **Impact**  
The TPSDP is expected to have a significant impact on the Tanzanian economy, including:

- Facilitating the privatization of state-owned enterprises (SOEs) and the transfer of assets and liabilities to the private sector.
- Strengthening the institutional framework for privatization and private sector development.
- Providing operational support to SOEs and the private sector, including technical assistance, capacity building, and market-oriented reforms.
- Promoting a conducive environment for private sector investment and growth.

6. **Conclusion**  
The Tanzania Privatization and Private Sector Development Project (TPSDP) is a World Bank-supported program designed to facilitate the privatization of state-owned enterprises (SOEs) and to promote the development of a private sector in Tanzania. The project aims to achieve this through a combination of policy reform, institutional strengthening, and operational support for SOEs and the private sector.

## TABLES AND QUESTIONNAIRES

**Table One.** Selected Economic Indicators (Percentage Annual Changes).

	1967-73	1974-78	1979-81	1982-84	1985-87
GDP per capita	2.5	-0.9	-1.1	-2.9	0.7
Inflation (CPI)	8.5	15.1	23.2	30.6	33.1
Exports	3.6	-6.8	7.1	-16.7	6.0
Imports	3.6	2.8	14.3	-8.4	13.8
Ratio of net exports to GDP*	-2.6	-9.6	-11.4	-7.1	-12.4
Ratio of debt to exports+	120.6	187.1	261.1	513.1	902.4

\*Same as the deficit in the current account of the balance of payments.

+Average *level* for period.

Source: Hyden, 1993:1397.

**Table Two: Capacity Utilization (Percentage).**

		1980	1985	1989	1990	1991	1994	1995
1	Textiles	46.6	22.3	22.9	29.0	30.0	20.9	18.9
2	Fertilizers	38.0	30.9	24.7	13.0	15.0	-	-
3	Leather	40.0	17.7	8.6	12.0	14.0	0.03	7.6
4	Cement	22.9	28.5	44.0	49.0	48.0	-	-
5	Cigarettes	80.1	47.5	58.5	66.0	68.0	61	64.4
6	Cold drinks	-	16.0	29.0	30.0	17.0	26	28.9
7	Beer	75.0	59.0	42.0	35.0	41.0	27.3	42.3
8	Iron	63.0	38.0	51.0	33.0	26.0	-	-
9	Cooking Oil	-	13.0	42.0	18.6	32.0	43.5	54.2
10	Tires	-	37.0	61.0	63.0	53.0	60.7	52.6
11	Safety Matches	61.0	77.0	51.0	90.0	111.0	31.3	35.5

Source: Katunzi, J (1998).

**Table Three:** Tanzania Trade and Other Nations US\$ million.

Year	Exports	Imports	Balance of Payments
1981/82	570	1079	-509
1982/83	369	902	-533
1983/84	347	875	-528
1984/85	335	950	-615
1985/86	317	1024	-707
1986/87	355	1155	-800
1987/88	362	1185	-823
1988/89	393.6	1277.4	-883
1989/90	424.5	1380	-955.5
1990/91	393.6	1381.3	-987.7
1991/92	422.2	1437.4	-1012
1992/93	600	1600	-1000

Source: Katunzi, J 1998:19.

**Table Four:** The Methods and Privatized Enterprises.

Method	1992	1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	Total	%
Total Sales	5	18	11	24	25	29	24	136	46
Liquidation	0	16	17	9	11	6	2	61	20
Closure	4	5	1	7	1	0	2	20	7
Under LART	0	11	9	0	0	14	0	34	11
Management Contract	0	1	2	0	2	3	0	8	3
Lease	2	8	5	7	1	0	1	24	8
Non-Core Assets	NA	NA	NA	NA	NA	9	7	16	5
<b>Total</b>	<b>11</b>	<b>59</b>	<b>45</b>	<b>47</b>	<b>40</b>	<b>61</b>	<b>36</b>	<b>299</b>	<b>100</b>

Source: PSRC in Due, 2000:3.

**Table Five:** CASHFLOWS TO AND FROM TREASURY.

	1995	1996	1997
<b>Cash flows to treasury</b>	<b>6634</b>	<b>5660</b>	<b>5531</b>
<b>Cash flows from Treasury</b>	<b>3250</b>	<b>566</b>	<b>4653</b>

Source: PSRC 1998:24.

**A QUESTIONNAIRE THAT WAS SENT TO PSRC  
CONSTRAINTS ON IMPLEMENTING THE PRIVATIZATION POLICY IN  
TANZANIA**

**BASING ON THE FOLLOWING FRAMEWORK:**

**1. Government Capabilities:**

a) *Cohesive economic team*-Was there a consensus among the economists of the Ministry of Finance, BOT and Intellectuals on the need to privatize? To what extent their differences delayed the process?

**A: Tanzania has been liberalizing her economy since the beginning of the 1990s using market oriented and private investor friendly policies. This is a policy issue whereby before it is designed and implemented; main stakeholders are consulted and their views considered, as appropriate. In this regard crucial government bodies, like the ones you mentioned, are just part and parcel of this process. The policy has so far achieved:**

- Restrictions on foreign exchange have been removed.
- financial sector has been liberalized.
- New legislation exists to facilitate investments from domestic and foreign sources. In 1993 Tanzania had over 400 parastatals, which were a financial burden to the State. Had cumulative losses of over USD 100 million; indebted to Govt. to the tune of USD 352 million; heavily dependent on subsidies etc.
- Virtually all potential sectors e.g. manufacturing, agriculture, mining, tourism, banking, etc. were dominated by State owned enterprises (SOEs).
- Most SOEs performed poorly and contributed very little if anything to economic growth of the nation.

The main objectives of the privatization programme are:

- To improve the operational efficiency of parastatal enterprises and their contribution to the national economy
- To reduce financial burden of parastatals on the Government budget
- To expand the role of the private sector in the economy, thereby permitting the Government to concentrate resources on its role as provider of basic public services, such as health, education, social infrastructure and other core Govt. activities
- To encourage wider participation by the people in the ownership and management of business

It's therefore quite evident that the need for parastatal restructuring and privatization was dictated by the realities of the liberalized economic forces and was in line with the Government decision. In Tanzania for a company to be privatized it must first be specified to confer PSRC the legal mandate for expediting privatization of the particular specified corporation. Specification is done by the Central Government through the Parent Ministries of the respective firms.

b) *Technical and administrative capacity*-Did PSRC had the capacity to design programmes and implement them, including legal preparations and proceedings for matters taken to court? Did they constrain programme implementation?

**A. PSRC is mainly the advisory body to the Government on particular divestiture transactions. The Government, The Cabinet (Chaired by the President) or the Fast Track (Chaired by the Prime Minister), make all decisions regarding privatisation.**

- Legal advise and draft of transaction agreements are part of the advisory services that PSRC offers to the Government. PSRC offers these services either directly or by sub-contracting third parties.
- 
- PSRC has legal experts to handle legal matters including court cases.
- PSRC, works closely with all Sector Ministries and Government Departments in all divestiture
- Transactions in what is called Divestiture Technical Teams which are made up of The Parent Ministry,
- President's Office Planning and Privatization, Attorney General's Chamber, The Management reps from
- the Corporation being privatized and PSRC.

These arrangements have helped PSRC to expedite its obligations relatively faster.

c) *Bureaucratic cooperation*-Was there enough cooperation among the ministries and PSRC in divesting enterprises that belonged to them?

*A: Yes, Refer the above section*

d) *Concentrated executive authority*-Did the President of that time (when the policy was initiated) and the present president had powers to surpass the parliament and the legislature to get privatization through-(*As the greater the executive powers, the easier it is for the government to implement its original privatization plans*).

**A: Partly responded in part (a). Generally, all privatization decisions and approvals are done by the Cabinet chaired by the President and in line with the law. The arrangement has not changed from the beginning and will not change. This arrangement is considered to be the best in the third world countries. It is fairly long but involves a lot of consensus building for the sake of ensuring that the key stakeholders are well represented all along. The process also ensures that transparent processes is carried out and thereby give the general public and other stakeholders an assurance of the authenticity of the respective transactions.**

e) *Speed*- Did the slow pace of privatization had impact on the programme itself?

**A: Fast conclusion of divestiture transactions is not a prime objective of privatization. In order to ensure that cost-effective efforts yield intended benefits, one has to attract credible investors, carry out a thorough due diligence on the prospective investors,**

allow investors to carry out a due diligence on the assets they aspire to acquire and hold negotiations on how best the firm's business is going to be revived and expanded by the prospective investor and thereafter conclude a fair deal.

## 2. Political Responses: (Opposition).

- a) *Civil Servants and PEs Employees*-Did they opposed the programme due to fear of power (Civil Servants) and Employment (Employees)?
- b) *Labour Unions*-
- c) *Public Enterprises Suppliers*-Due to fear loss of tender, were they a significant force to oppose the programme?
- d) *Pro-privatization Political Base*-was there a group/s that was/were actively supporting privatization? OR did the Public at large conceived privatization as a good thing so in favour of it? Did opposition parties when they were formed mobilize the masses against the programme?

**A: (a-d): At the beginning of the divestiture programme, there was much criticism from the public mainly due to ideological history. Resistance propositions were mainly raised by beneficiaries of the old parastatal, bureaucratic system and ill performance of the parastatals: Key resistance areas were:**

- Fear by some workers, managers and boards of directors to lose their jobs, fringe benefits and influence in the divested firms
- Some people misunderstand privatization, believing that the economy is being sold to foreigners
- 

Public awareness support has helped educate the general public and other stakeholders on what is actually happening on the ground. Visit our website at [www.psrtz.com](http://www.psrtz.com) for more information.

## 3. Technical difficulties:

- a) *Market Failures*- was there a lack of competitive bidders that necessitated sale below market prices, hence delaying the programme?

**A: PSRC does not dictate prices to bidders as that is against the set out objectives of privatization as mentioned above. Instead, all prospective bidders are given an opportunity to carry out their due diligence, which enable them to propose the purchase price of public corporations' shares or assets. Price is not a single determinant for the winning bidder for a particular company. Technical Bid, which entails an overall Business Plan and Project Implementation Plans as well as capacity of the investor to run the particular business, has to conform to the Financial Proposal submitted by the bidder, among other things.**

- b) *Inadequate Financial Markets*- (i.e. the stock markets) where shares could be floated, or in determining the value of shares delayed/slowed the privatization?

privatization link is a good and strong argument in favour of the public programme. Privatization has been a major and a significant reform in the economy and it has been a success.

**A: Dar es Salaam Stock Exchange** Commenced in 1997 and the first companies to trade at the bourse were the privatized firms. Dominant companies at the bourse are turned round privatized firms. It generally takes a long time to revive most of these parastatals to comply with the listing criteria minimum of which being a three-year profitability track record. The reason is that most of these parastatals had accumulated debts and were insolvent at the time of divestiture. Some were even closed and others had to be liquidated. However, it also took time for people to realize the benefits of buying shares at the stock exchange so it can't be conclusively said that listing would speed up privatization then. Stock Exchange facilitates wider share ownership, and this is being made possible by discounting the IPO price. Find the DSE website link on our links page for more information from them.

c) *Difficult in valuation of assets*-which criteria is used, and in what ways it delayed the programme?

**A. This has never been a problem.**

#### **GENERAL REMARKS:**

**IT SEEMS ACCORDING TO DATA THAT PRIVATIZATION WAS SLOW UP TO MID 1996, THERE AFTER IT ACCELERATED FAST. IF IT IS TRUE, WHAT MIGHT EXPLAIN THAT?**

We haven't established that but all divestiture decisions were being handled by the cabinet in the past, prior to commencement of the Fast Track, in late 1990s. The latter handles small divestiture transactions and skips some stages that are followed in the utilities and major transactions.

**THANK YOU.**

**A QUESTIONNAIRE THAT WAS SENT TO TUCTA AND ITS RESPONSES BELOW.**

**THE GENERAL SECRETARY,  
TUCTA,  
P.O.BOX 15359,  
DAR ES SALAAM.  
TEL 0744-272021.**

Dear Sir,

**REF: PRIVATIZATION AND TRADE UNIONS.**

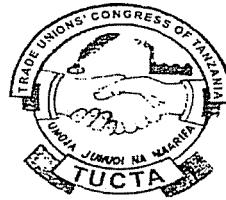
The above subject matters. I request your assistance as far as the subject is concerned for my research paper.

1. In making of the policy itself, was the then TFTU involved/consulted in making recommendations, as it could have impact on labor?
2. Is the Trade Union involved in the privatization exercise itself, and part of PSRC?
3. Was there any trade union strikes-at the beginning of privatization in 1993- that could hamper the implementation of the policy itself? Which unions were involved?
4. Were the constitutional changes (if any) after that time aimed to reduce trade unions power so that privatization could be smoothed?

Among other things, I believe your cooperation in addressing these issues will help part of my paper. Thanking You in Advance,



# Memo



To: MR. ANICET MICHAEL  
INSTITUTE OF SOCIAL STUDIES,  
NETHERLAND.

From: TRADE UNION COGNRESS OF  
TANZANIA (TUCTA)  
(Att. Mr. Gonza)

Re: **PRIVATIZATION AND TRADE UNIONS** Pages: 2

CC:

Urgent     For Review     Please Comment     Please Reply     Please Recycl

Your letter dated 10<sup>th</sup> September 2002 on the above-mentioned topic refers.

Please find the answers outlined below for the Question/Issues you wanted to know.

## Q.1:

### Answer:

In making of the policy on privatisation the Trade Union National Center by then TFTU was neither involved nor consulted in making recommendations.

## Q.2:

### Answer:

Trade Unions are not involved in the privatization exercise/process and they are not part of the PSRC. However Mr. Bruno Mpangala the then TFTU Secretary General was nominated by the President in 1997 to be one of the Commissioners of PSRC but his nomination was in his personal capacity and not to represent Trade Unions because to-date he continues to be the PSRC Commissioner when he is not a Trade Union Leader. His nomination as one of the PSRC Commissioner in this personal capacity was confirmed by the government when trade union leaders since TUCTA was established in 2001 demanded from the government to replace Mr. Mpangala in the PSRC. Therefore Mr. Mpangala continues to be a PSRC Commission although he lost his position as a Trade Union Leader when TFTU/OTTU was dissolved since July 2000 and when TUCTA was formed in 2001.

On 29<sup>th</sup> June 2002, during the privatization workshop for Trade Union Leaders that convened in Morogoro, and officially opened by the President of United Republic of Tanzania, Trade Union Leaders demanded trade union representation in the PSRC. The Government ordered the PSRC to involve trade union leadership in the PSRC Technical Committee that prepare recommendations to the PSRC Board on the privatization issues as a starting point of involving Trade Unions in the Privatization process. Implementation of this order has not yet started.

**Q.3:**

**Answer:**

There was not any Trade Union strikes at the beginning of the privatization exercise in 1993. However, there have been several lockouts to management by the workers who demand for their final benefits after or before they are retrenchment/layed-off. This has happened at TANESCO, TRC, Blanket Industry, and Urafiki Textile etc. this year.

**Q.4:**

**Answer:**

According to the Trade Union Act No.10 of 1998, it is illegal for the workers to go on strike. They have to follow a very long procedure in order to go on strike. There was no any constitutional changes in order to reduce trade union power so that privatisation could be smooth. Since before, the constitution and the past trade union acts, do not give power trade unions to go on strike. (even before the privatisation exercise was started in 1993).

NB: Incase you need more clarifications; please do not hesitate to contact us.

(Tel. No. 255-22-2130036 or Fax.No255-22-2130036)

Yours Sincerely,

Sgn. Gonza M.J.

For: SECRETARY GENERAL, TUCTA.